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IMPERIAL ECONOMIC CONFERENCE, OTTAWA

1932

REPORT OF THE INDIAN DELEGATION

INCLUDING THE

TRADE AGREEMENT BETWEEN HIS MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM AND THE GOVERNMENT OF INDIA

Appendix E

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REPORT

of the

INDIAN DELEGATION TO THE IMPERIAL ECONOMIC CONFERENCE held at OTTAWA,

21st July to 20th August, 1932.

CHAPTER I.

INTRODUCTION.

The Imperial Conference of 1930 at its plenary session held on the 13th November of that year adopted the following resolutions:—

(1) The Imperial Conference records its belief that the further development of inter-Imperial markets is of the utmost importance to the various parts of the Commonwealth.

(2) Inasmuch as this Conference has not been able, within the time limit of its deliberations, to examine fully the various means by which inter-Imperial trade may best be maintained and extended, it is resolved that the Economic Section of the Conference be adjourned to meet at Ottawa on a date within the next twelve months to be mutually agreed upon, when the examination will be resumed with a view to adopting the means and methods most likely to achieve the common aim; provided that this reference is not to be construed as modifying the policy expressed on behalf of any of the Governments represented at this Conference.

(3) The agenda for the meeting referred to in the previous resolution will be agreed between the several Governments.

The discussions at the London Conference of 1930 had been influenced by a declaration made by His Majesty's Government in the United Kingdom, at an early stage of the proceedings, to the effect that they were opposed to any policy involving duties on foodstuffs or raw materials, and the economic discussions at the Conference were concentrated not on tariff questions but on alternative methods of promoting trade within the Empire, such as the quota system, bulk purchase schemes, import boards, direct exchange of commodities, and the promotion of agreements between industrialists. It was the failure to arrive at unanimous conclusions on these questions which was chiefly responsible for the decision to hold an adjourned Conference on economic questions during the following year, and an invitation by the Canadian Government to the constituent Governments of the Empire to assemble at Ottawa was accepted. For various reasons, however, the adjourned Conference could not be held in 1931 and was postponed to August 1932. In the intervening period events of far-reaching importance had occurred in the United Kingdom, to which reference will be made in the next chapter.

2. The appointment of the Indian Delegation to the Ottawa Conference was announced by Sir George Rainy in the Indian Legislative Assembly on the 4th April 1932 in the following terms:—

"The Government of India have agreed to send a delegation to the Imperial Economic Conference which will meet at Ottawa in July next. They have been informed that the principal item on the agenda of the Conference will be the discussion of a policy of trade agreements between different countries of the Empire and they have been invited in particular to consider the question whether, having regard to the new tariff policy of His Majesty's Government in the United

Kingdom, Great Britain and India should enter into a tariff agreement embodying a reciprocal preferential regime so designed as to benefit the trade of both countries. The Government of India have accepted this invitation and His Excellency the Viceroy has, with the approval of the Secretary of State for India, appointed the following gentlemen to represent India at the Conference:—

Leader:—Sir Atul Chatterjee.

Members:—

Mr. R. K. Shanmukham Chetty,
Sir Padamji Ginwala,
Seth Haji Abdoola Haroon,
Sahibzada Abdussamad Khan, and
Sir George Rainy.

"If the conclusion of a trade agreement is recommended as a result of the Conference, any changes in the tariff which it may involve will be duly placed before the Legislature for its approval. The Government of India have no wish to put any such changes into effect unless the Legislature is satisfied that they are in the interests of India."

3. Sir Atul Chatterjee, the Leader of the Delegation, arrived in London towards the end of April; the other members in May and June. Sir Henry Strakosch and Sir George Schuster were subsequently appointed delegates for the special purpose of dealing with monetary questions. The conversations with representatives of His Majesty's Government in the United Kingdom opened with a formal exchange of views between the Right Hon'ble Stanley Baldwin, Lord President of the Council, and Sir Atul Chatterjee at a meeting which took place between the United Kingdom and Indian Delegations on the 24th May. A copy of Mr. Baldwin's speech and of Sir Atul Chatterjee's reply is attached to this report (Appendix A). On the following day, 25th May, we met Sir Horace Wilson, K.C.B., C.B.E., Chief Industrial Adviser to the United Kingdom Government, and other official advisers to the United Kingdom Delegation, including representatives of the Colonial Office. During the subsequent period which elapsed before sailing on 13th July for Ottawa, we had frequent conversations in London not only with Sir Horace Wilson and his colleagues but also with representative industrialists of India and of the United Kingdom, with representatives of Dominion Governments and with the Secretaries to the Empire Marketing Board and the Imperial Economic Committee. On board the "Empress of Britain" we continued our conversations with the United Kingdom Delegation and with the official advisers of that Delegation. Mr. G. F. Rose, the representative of the Indian Jute Mills Association, sailed on the same steamer with the Indian Delegation; Messrs. R. Graham and D. C. Ghose, representatives respectively of the Indian Tea Association (London) and of the Indian Tea Planters' Association (Jalpaiguri), met us at Ottawa. We take this opportunity of expressing our grateful thanks to these three unofficial advisers for the assistance rendered by them during the Conference. We arrived at Ottawa on the 19th July.

4. The Conference was formally opened in the House of Commons Chamber in Parliament Buildings, Ottawa, on the 21st July, by the Governor-General of Canada, who read to the Delegates there assembled a gracious message from His Majesty the King-Emperor. Our Leader, Sir Atul Chatterjee, had the honour of seconding the resolution of loyalty to His Majesty which was passed unanimously as the first official act of the Conference. In the course of the proceedings the Leader of each Delegation reviewed the economic conditions in the country which he represented and explained the standpoint from which his Delegation approached the Conference. A copy of Sir Atul Chatterjee's speech on this occasion is appended (Appendix B). Shortly after the opening ceremony the Heads of Delegations met and decided to constitute five

Committees to deal with the various questions raised in the Agenda of the Conference (Appendix C). The Committees, and the Sub-committees through which they worked, were constituted as follows:—

Committee on "Promotion of Trade within the Commonwealth" (Committee I): terms of reference:—

"Examination of aspects of general trade and tariff policy and administration affecting Empire trade, including, *inter alia*, the following subjects:—

(*a*) Recognition of the principle of reciprocal tariff preferences within the Commonwealth;

(*b*) General application of existing and future tariff preferences within the Commonwealth;

(*c*) Extension to other parts of the Commonwealth of tariff advantages accorded to foreign countries:

(*d*) Determination of percentage of "Empire Content" necessary to secure preferential tariff treatment;

(*e*) Export bounties and anti-dumping duties within the Commonwealth."

The Chairman of the Committee was the Right Hon'ble the Viscount Hailsham (United Kingdom): the representatives of India on this Committee were Sir Atul Chatterjee, Sir George Rainy and Mr. Chetty. In view of their importance, meetings were also attended by Sir Padamji Ginwala, Seth Haji Abdoola Haroon and Sahibzada Abdussamad Khan, so far as their engagements on other Committees permitted. Two Sub-committees were constituted by this Committee to examine and report on "The Determination of Empire Content" and "The Recognition of the principle of Reciprocal Preferences". In addition, informal groups were formed of representatives of the Dominions interested in the following subjects:—

(1) Dairy products;

(2) Meat;

(3) Fruit and Vegetables;

(4) Cereals;

(5) Metals and Minerals; and

(6) Tobacco.

These groups presented no formal reports, but their discussions were helpful in connection with the bilateral trade negotiations which were proceeding, simultaneously with the Conference, between the United Kingdom and the Colonies on the one hand and the Dominions and India on the other.

Committee on "Customs Administration" (Committee II): terms of reference:—

"The examination of certain aspects of Customs Administration within the Commonwealth."

The Hon'ble W. Downie Stewart (New Zealand) was appointed Chairman of this Committee, and Seth Haji Abdoola Haroon represented India as a member. A Sub-Committee of official experts was appointed to consider the technical aspects of Customs administration in the various countries of the Commonwealth.

Committee on "Commercial Relations with Foreign Countries." (Committee III): terms of reference:—

"(*a*) Relation of inter-Imperial preferences to concessions to foreign countries;

(*b*) Interpretation of the most-favoured-nation clause, particularly with reference to the development of regional preferences and of systems of import quotas."

The Hon'ble N. C. Havenga (South Africa) was Chairman of this Committee; and India was represented by Sir George Rainy and by Sahibzada Abdussamad Khan.

Committee on "Monetary and Financial Questions". (Committee IV): terms of reference:—

"Consideration of existing inter-relationships of the various currencies and monetary standards of the Empire and of the desirability and feasibility of taking steps to restore and stabilise the general price level and to stabilise exchange."

The Hon'ble H. H. Stevens (Canada) was Chairman of this Committee, on which Sir Henry Strakosch and Sir George Schuster sat as representatives of India. A Sub-committee, consisting of two representatives of each Delegation, was set up to consider and report on the following questions:—

"(*a*) Is it possible or desirable by action on the part of the member countries of the Empire, or a larger group, to raise the general level of prices, and, if so, by what means and to what extent?

(*b*) Is it possible or desirable to stabilise currencies within the Empire? If so, on what basis and by what means?

Committee on "Methods of Economic Co-operation". (Committee V): terms of reference:—

"Consideration of the appropriate basis and means of effecting inter-Imperial economic co-operation, including review of existing agencies, examination of the report of the Imperial Economic Committee on Industrial Co-operation, and discussion of communications and of research and standardisation."

Sir Atul Chatterjee (India) was Chairman of this Committee and Sir Padamji Ginwala was the representative of India. The following Sub-Committees were appointed to report to this Committee:—

Sub-committee on Industrial Standardisation.

Sub-committee on Grading and Standards of Agricultural Products.

Sub-committee on Industrial Co-operation.

Sub-committee on Films and Radio.

Sub-Committee on Procedure.

In addition, a special Sub-committee of experts was set up to report on the existing machinery for Economic Co-operation.

5. In Chapter VII of this Report we describe the work of Committee I of the Conference and in Chapter VIII the work of Committees II, III and V. A copy of the report prepared by Sir Henry Strakosch and Sir George Schuster on the work of Committee IV forms an enclosure to this Report and will be found in Appendix D. We are in general agreement with the observations contained in this Report.

6. We returned to London immediately after the close of the Conference at Ottawa. Since then we have been engaged in collating the results of our work at Ottawa and in drafting the Report. Some of the members of the Delegation will return to India in the course of this week.

7. At Ottawa we were the guests the Canadian Government, and we desire to express our deep appreciation of the magnificent hospitality which we received throughout our residence in Canada from the Government as well as from all classes of the Canadian people. We were provided with spacious and convenient office accommodation in Parliament Buildings at Ottawa. The Canadian Government issued to the visiting Delegations a very useful series of carefully compiled statistics relating to the trade of Empire countries, and in addition we enjoyed the facilities of the splendid library in Parliament Buildings. We received much personal kindness from His Excellency the Governor General from the Right

Hon'ble R. B. Bennett, Prime Minister, and from other Ministers and permanent officials.

8. In London, the High Commissioner for India kindly gave us adequate and suitable office accommodation in India House. We are grateful to him and to his staff for the courtesy and attention extended to us during the period of our work in London.

9. We take this opportunity of acknowledging the very valuable help and co-operation of our official Advisers Mr. H. A. F. Lindsay, C.I.E., C.B.E., Indian Trade Commissioner in London, was appointed Secretary to the Delegation in addition to being an Adviser. His long experience of the conditions of the external trade of India and also his extensive acquaintance with British commercial organisations proved most useful for the purposes of our work. We are indebted to the Government of India for placing at our disposal the services of Mr. B. C. Burt, C.I.E., M.B.E., Adviser to the Imperial Council of Agricultural Research. Mr. Burt's wide and unrivalled knowledge of Indian agricultural conditions and possibilities, particularly on the economic and commercial side, was of the utmost value to us throughout our work. Mr. E. J. Turner, C.B.E., Secretary in the Economic and Overseas Department of the India Office, who was lent to us at our request, brought to the Delegation an intimate acquaintance with the treaty rights and obligations of India and other Empire countries in commercial matters. Sir Samuel Smyth, K.C.I.E., C.S.I., I.C.S., (retired), was appointed to advise us in matters concerning Burma, but at our request readily placed his valuable administrative and financial experience at our disposal as a general Adviser. The work that devolved on all four Advisers was heavy, intricate and continuous, and it would have beeen impossible for us to perform our task without their loyal, vigilant and efficient co-operation.

10. We desire also to commend the services rendered to the Delegation by Mr. W. Marlow, Mr. E. H. Thompson, M.C., and Miss Wildman, three members of the staff of the High Commissioner for India who were kindly lent by him for our work. Mr. Marlow acted as the Assistant Secretary of the Delegation. Miss Wildman served as Private Secretary to the Leader of the Delegation in addition to performing confidential work for the whole Delegation. The duties of all three officials were exacting, responsible and without any break. The staff employed by our Delegation was very small compared with that of all other Delegations. We owe it to the loyalty and devotion of these three officials that, in spite of the difficult conditions, there was never any hitch or breakdown in our work.

CHAPTER II.

"Imperial Preference" and "Reciprocal Preferences".

11. Before the Indian Delegation was appointed it had become abundantly clear that the principal subject of discussion at the Imperial Economic Conference at Ottawa would be the possibility of concluding Preferential Trade Agreements within the Empire, and in fact this proved to be the case. It may be useful, therefore, if at the outset we record briefly what the attitude of the Government of India has been in the past on the various occasions on which the question has come up for discussion. The first occasion was in 1903, shortly after the late Mr. Joseph Chamberlain had initiated the Tariff Reform movement. The conclusions then reached by Lord Curzon's Government were as follows:—

(a) That without any system of tariff preferences India already enjoyed a large measure of the advantages of the free exchange of imports and exports;

(b) That India had not very much to offer to the Empire;

(c) That Government would not be justified in embarking on a new policy which might involve reprisals by foreign nations, "unless assured of benefits greater and more certain than any which at that time presented themselves."

12. The question was not again reviewed in detail until after the War. In February 1920 a resolution was passed by the Imperial Legislative Council recommending the appointment of a Committee to consider the adoption of a system of preferential duties in favour of goods of Empire origin, and also the best method of considering the future fiscal policy of India. The Committee were unanimously of opinion that there was no ground for apprehension of reprisals by foreign nations, and that India was likely neither to gain or to lose appreciably on balance by the adoption of a moderate preference in the import duties. They recommended that the future fiscal policy of India should be investigated by a Commission. In pursuance of this recommendation the Fiscal Commission was set up, with instructions "to examine with reference to all the interests concerned the tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations". A chapter of the Fiscal Commission's report is given up to an examination of the origins of the arguments for and against its adoption as part of India's fiscal policy. The Commission decided that this question was one which could only be determined in accordance with Indian opinion as voiced by the Indian Legislature. They stated in addition the cardinal principles, that no preference given should in any way diminish the protection required by Indian industries or involve any appreciable economic loss to India after taking into account the economic gain which India derived from the preferences granted to her by the United Kingdom. They suggested that the Tariff Board might be charged with the task of determining whether there were any commodities on which preference might be given in accordance with the principles laid down to the benefit of the Empire and without detriment to Indian interests.

13. The question of Imperial Preference figured prominently in each of the three Imperial Conferences which were held prior to the Ottawa Conference, namely the Imperial Economic Conference of 1923, the Imperial Conference of 1926 and the Imperial Conference of 1930. On all three occasions the representatives of India explained the difficulties which stood in the way of the adoption of a general policy of Imperial Preference, and intimated that India was not prepared to enter into such a scheme. On the occasion of the 1930 Conference Sir Geoffrey Corbett expressed the policy of the Government of India in the following terms:—

"India is ready to consider favourably all schemes designed to encourage the development of trade with all other countries of the British

Commonwealth. But she is not prepared to depart from her present policy of discriminating protection, which indeed, as I have explained it, seems to us to fulfil the conditions of 'rationalised production', about which we now hear so much. We are unable, therefore, to commit ourselves to any general scheme of tariff preference within the Empire, but we must reserve complete freedom to deal with each case as it arises."

14. On two occasions between 1923 and 1931 Acts were passed by the Indian Legislature imposing lower duties on United Kingdom goods than on similar goods of foreign origin. The first of these Acts was the Steel Industry (Protection) Act of 1927. In this case the Tariff Board after a full enquiry found that a lower duty on certain classes of steel would give all the protection required by the Indian industry so far as competition from the United Kingdom was concerned, and recommended the adoption of a scheme of differential duties on these classes of steel, a lower rate being imposed on British goods and a higher rate on those made elsewhere. These proposals received the approval of the Government of India and of the Legislature, and the new duties were to remain in force till March 1934. The second Act to which reference has been made was the Cotton Industry (Protection) Act of 1930. In this case there was no preliminary Tariff Board enquiry, but the Act imposed a duty of 15 per cent. on cotton piece goods made in the United Kingdom and of 20 per cent. on similar goods made elsewhere, for a period of three years ending in March 1933 A Tariff Board enquiry before the end of the period was promised, and that enquiry is now proceeding In this case also the ground for differentiation was the smaller amount of protection required by the Indian industry against competition from the United Kingdom. It has been necessary to refer to these Acts because they introduced into the Indian Tariff system what was in effect though not in intention, a preference in favour of British goods. But in both cases the benefit to the United Kingdom was incidental, and the differentiation in the duties was held to be justified purely in the interests of India. The arguments by which participation in a general scheme of tariff preferences might be justified were not invoked on either occasion, and the decisions taken did not commit India in any way to the adoption of such a scheme.

15 The attitude of the Government of India to this question since 1923 may be summarised as follows:—

(1) It was not clear that India had much to gain from the adoption of a general scheme of Tariff Preferences within the Empire.

(2) There were undoubted difficulties about India's participation in any such scheme, difficulties arising both from the policy of Discriminating Protection which had been adopted and from the importance of the Customs head as a source of Central Revenues.

(3) On balance there were no sufficient grounds why India should support a scheme of the kind indicated. To that attitude India might well have adhered but for a change in circumstances which made it necessary to approach the question from an entirely new angle.

(4) Where it was found on enquiry that a duty on United Kingdom goods lower than the duty on similar foreign goods would give all the protection required by an Indian industry, it was consistent with the policy of Discriminating Protection to adopt a scheme of differential duties. But this was done entirely in India's interests and not on gounds which would justify a general scheme of tariff preferences.

16. Up to the autumn of 1931, the tariff policy of the United Kingdom was based on the principles of Free Trade. Customs duties for revenue purposes were levied only on selected commodities, and were frequently accompanied by countervailing excise duties. Since the War, it is true, duties had been imposed on certain commodities for protective

rather than for revenue reasons, as, for example, the so-called Key Industries and Safe-guarding duties, but these departures from strict Free Trade orthodoxy were occasional rather than systematic. So long as this policy was maintained it was impossible for the United Kingdom to participate in any general scheme of tariff preferences. Nevertheless, from 1919 onwards it was clear that His Majesty's Government in the United Kingdom was ready to encourage Empire trade by the grant of tariff preferences, so far as this could be done within the limits of her own fiscal policy. It was for this reason that such Empire products as tea, coffee and tobacco were allowed to enter the United Kingdom at rates of duty substantially lower than those applicable to foreign products, and in August 1931 the list of Empire products enjoying preference comprised the following articles:—

Buttons.

Chicory.

Cinematograph films.

Clocks and watches.

Cocoa.

Coffee.

Fruit, dried or otherwise preserved.

Hollow-ware, wrought enamelled.

Hops and hop oil.

Key Industry goods (optical glass, scientific instruments, etc.).

Motor cars and accessories.

Musical instruments and accessories.

Pottery, translucent or vitrified.

Silk and artificial silk.

Spirits (brandy, rum, etc.).

Sugar (including molasses, confectionery, etc.)

Tobacco, unmanufactured and manufactured.

Wine.

Of these items, India is only interested in coffee, fruit, silk and tobacco. The list no longer included tea—the commodity in which India was most closely concerned—for that preference disappeared with the removal of the revenue duty in 1929, and was not restored until April 1932.

17. The accession to power of a National Government in August 1931 and the overwhelming majority which that Government obtained in the General Election which followed created an entirely new situation. The plans of the National Government included the imposition of a general tariff both for protective and revenue purposes, and early in 1932 the scheme took concrete shape in the passing of the Import Duties Act. That Act imposed a 10 per cent. rate of duty on all commodities not subject to duty under earlier Acts or not included in the Free List contained in a Schedule to the Act; it set up an Advisory Committee, and it empowered the British Government on the advice of that Committee to increase the rates of duty above 10 per cent. Since the passing of the Act several orders increasing the duties on particular commodities have been made. The Act contained a provision by which products of the Dominions and India were exempted from the operation of the new duties up to the 15th November 1932, but then became subject to them unless before that date an Order in Council had been made exempting them for a further period. Products of the non-self-governing Colonies were, however, exempted unconditionally from all duties under the Act. At the time of the introduction of the Bill in Parliament an announcement was made by His Majesty's Government in the United Kingdom that the question of reciprocal tariff arrangements between the United Kindgom on the one hand and the Dominions and India on the other hand would be discussed

at the impending Imperial Economic Conference at Ottawa, and that if satisfactory agreements were concluded the necessary Orders in Council would be made for the continuance of the exemption of their products from duty, but gave no guarantee of the continuance of such exemption in the absence of agreement.

18. The Import Duties Act and the announcement of His Majesty's Government in the United Kingdom created an entirely new situation for India. It was no longer a question of what India stood to gain from the adoption of a general scheme of trade preferences throughout the Empire. The tariffs of the various Dominions already contained provisions for the grant of preferences in some cases to the manufactures of the United Kingdom, and in others to goods originating in any Empire country, the United Kingdom had now fully committed itself to the adoption of a reciprocal policy, and this example might be expected to be followed by similar action in important parts of the Colonial Empire and by the adoption of the principle of reciprocity by Dominions which had hitherto conceded unconditional preference. The issue so long debated whether there should be a general scheme of trade preference within the Empire was now settled and the question which those responsible for India's fiscal interests had to face was whether India was justified in maintaining her former attitude of aloofness, whether in fact she could afford to stand out of an agreement which seemed likely to include most, if not all, Empire countries other than herself. It was no longer a question of what India stood to gain but of what she stood to lose.

19. The paramount consideration to be borne in mind was of course the interests of India's export trade. Generally speaking, India is an exporter of raw produce and an importer of manufactured goods, and the major portion of her exports may be classed as agricultural, the most important items being raw cotton, raw jute, rice and other food grains, oilseeds and tea. The exports of raw produce also include minerals such as manganese ore, and other articles such as timber and lac which are not the products of agriculture. Finally, India is an exporter of manufactured goods such as jute and cotton manufactures, and of what may be caled semi-manufactures, a category which would include the vegetable oils, tanned hides and skins, pig-lead, pig-iorn and semi-finished steel. Though for the present manufactured goods are of less prominence among Indian exports than the raw products, it must be expected that, with the growth of industries in India, the importance of the manufacturing side will tend to increase.

20. On both sides the position of India is vulnerable. It is true that in the production of raw jute she has no serious competition and possesses what is for practical purposes a monopoly, but the number of such commodities is very small, and even where India is by far the largest supplier of a particular commodity—the United Kingdom, for example, takes more than 99 per cent. of her imports of myrabolams from India—the trade in these commodities is exposed to the competition of other articles, natural or synthetic, which will serve the same purpose as India's natural products. Thus, for example, the tanner uses many other tanning materials besides myrabolams, or again, to take another example, India has no dangerous rival as an exporter of lac, but the competition between natural lac and synthetic substitutes is of the keenest and most formidable kind. Apart from the small class of commodities indicated above, India's exports of agricultural and other raw produce are in competition with similar articles produced in many other countries. India has no monopoly, and if she is to retain the trade she has already built up and to extend her trade in new directions in accordance with variations in world demand, she must see to it that outlets for her produce which have hitherto been open are not closed against her.

21. The United Kingdom is the largest single purchaser of Indian goods and the change of fiscal policy already described was, for India, a matter of first class importance. Up to 1931, on each occasion, when the

United Kingdom imposed perferential duties the benefit was extended freely to all parts of the Empire and nothing was asked in return. The new policy extended the preferential system to a far wider range of commodities, but on a reciprocal basis, and India could not with any reason expect that the United Kingdom would be willing to accord to her a one-sided preference, or treat her more liberally than she was prepared to treat the Dominions. Nor was it only the new preferences which were in question. The older Acts imposing the revenue duties, it is true, and the Finance Act of 1932 which reimposed the tea duty and restored the preference, contained no time limit such as was imposed by the Import Duties Act, but once the principle of reciprocity was accepted it would have been idle to hope that the two sets of duties would be kept permanently in water-tight compartments, the one set reciprocal and the other non-reciprocal. Sooner or later the principle of reciprocity would extend to the whole range of duties and it became a matter of urgency to review the position as a whole.

22. As soon as the facts were examined, it became evident that a system of preferences from which India was excluded, while other parts of the Empire were admitted, would be a serious matter for India. So far as the Dominions are concerned, direct competition is confined to food grains such as wheat and barley, to tobacco and hardwoods, and to mineral products such as lead and zinc. But with the Colonies the position is widely different. Direct competition extends to the whole range of tropical and semi-tropical products; in some commodities, such as tea and spices and the vegetable oils, their exports already rival or exceed those of India, and in many others, such as groundnuts and similar oilseeds, they constitute an alternative source of supply which in course of time would prove a real menace to India's trade with the United Kingdom. There is no reason to doubt that so long as the competition is on equal terms India can hold her own. But if the competition were intensified under the stimulus of a preference in which India had no share, India's trade must inevitably suffer.

23. The risk which India might incur by a refusal to negotiate was most obvious in the case of tea. The two great Empire producers are India and Ceylon, and both are exposed to competition from the Dutch East Indies, the extent and magnitude of which was not fully appreciated until the removal of the tea duty in the United Kingdom in 1929 brought to an end the preference which Empire tea had previously enjoyed. The duty was restored with an enhanced preference of 2*d*. a pound in April 1932, but had India been excluded, it is not too much to say that the consequences to the Indian tea industry must have been disastrous. The United Kingdom is by far the largest consumer of tea in the world, and more than half its requirements are supplied by India, the value of the retained imports from India in 1929 amounting to more than £20 million. But if India had to face not only competition on equal terms from the Dutch East Indies, but also the competition of Ceylon with an advantage of 2*d*. a pound in the duty, the inevitable result must have been a steady decline in the Indian trade and a very grave curtailment of production on the tea-growing districts in India. Large numbers of labourers employed by the tea gardens would necessarily have been displaced, with much consequent hardship and suffering, and in more than one Province the effect on the Provincial finances would have been grave.

24. The danger to be apprehended was most serious and most clearly evident in the case of tea, but it was far from being confined to that commodity. It extended also to the whole class of oilseeds, to vegetable oils of all kinds, to wheat, to spices of many descriptions, to coir and hemp, and to raw goat skins. In the sphere of manufactures the position was somewhat different. India's exports of manufactured goods to the United Kingdom are confined to a few categories, and direct competition from the Colonies was improbable except in respect of coir manufactures and possibly in the future of tanned hides and skins, while the Dominions

were serious competitors only in respect of pig-lead. In two directions, however, the Indian position was menaced. In the first place the imposition on Indian jute manufactures, and on woollen carpets and rugs of the duties applicable to foreign goods of the same classes must have led to an appreciable replacement of Indian goods by goods made in the United Kingdom, while the imposition on Indian pigiron and semi-finished steel of the duties levied under the Import Duties Act would have completely closed the British markets to these products. For the last four or five years India has supplied substantial quantities of pig-iron to the United Kingdom, and while the trade in semi-finished steel is only in its initial stages, it holds out the promise of important developments in future. We shall recur to this subject in a later paragraph

25. The other menace to India's export trade in manufactures appeared from a different quarter. The general adoption of a scheme of reciprocal tariff preferences could not but lead to the grant of preferences by many parts of the Colonial Empire to the manufactures of the United Kingdom. If India were excluded from these preferences, not only would there be some immediate loss of trade, but the developments profitable to India, which might naturally be expected in the future, particularly in respect of cotton piecegoods, would be rendered impossible. It was a matter of moment to India to establish her position in the Colonial markets, and to secure equality of treatment for her products with the products of other parts of the Empire. We consider this aspect of the case to be of great importance when a long view is taken, and the probable trade developments of the coming years are taken into account.

26. So far we have discussed only the adverse effects on India's trade likely to result from the grant to other parts of the Empire of preferences from which India was excluded. But there is more than this to be said. In the announcement of the 4th February 1932 it was made clear that His Majesty's Government in the United Kingdom reserved to themselves liberty after Ottawa to enter upon negotiations with non-Empire countries for the conclusion of preferential trade agreements. It was a possibility, though perhaps no more than a possibility, that these agreements might operate to the detriment of India. This consideration was less weighty than those discussed in earlier paragraphs, but when all were taken together, it became evident that if India declined to participate in the discussions at Ottawa then the consequence must be accepted that India's trade with the other parts of the Empire would for the future be carried on under much less favourable conditions than had hitherto prevailed.

27. The appointment of the Indian Delegation to Ottawa was the result of the Government of India's decision that in all the circumstances it was impossible for India to stand aloof and that the possibility of concluding a satisfactory trade agreement must be fully explored. The primary task of the Delegation was to examine with the utmost care the nature and extent of India's export trade to Empire countries, the competition to which it was exposed, the sources from which danger was to be apprehended, the value of the preferences which India already enjoyed, and the possibility of securing further advantages for India by the grant of new and increased preferences both in the United Kingdom and in the various parts of the Colonial Empire. Throughout, the object in view was to seek every opportunity of safeguarding India's existing export trade from dangers which might be apprehended, of stimulating its recovery from the prevailing depression, and of opening out new lines of development to the utmost extent possible. That was one side of our work. The other commenced when the time came to discuss the proposals put forward by His Majesty's Government in the United Kingdom for the grant of tariff preferences by India. It may be useful, we think, if we endeavour to explain the spirit in which we approached this side of our work.

28. The Indian import tariff is primarily a revenue tariff which imposes a moderate uniform rate of duties on all commodities, subject

however first to the levy of a much higher duty on particular articles, second to exemption from duty or admission at low rates of other articles where the national interests require such concessions, and finally to the imposition of protective duties when it is established that the encouragement of these industries is justified in the national interest. The higher rates of duty call for no comment; the exemptions from duty and the low rates fall into one or the other of the following categories:

(1) Commodities of importance to the cultivator, such as agricultural implements and manures.

(2) Particular medicines such as quinine, the wide distribution of which is important from the point of view of health.

(3) Commodities a duty on which might operate as a tax on knowledge, such as printing machinery and appliances.

(4) Commodities a duty on which might retard a desirable development still in its infancy, such as aircraft and radio appliances.

(5) Commodities a duty on which would impede the development of industries, such as power machinery, raw materials and dyes.

(6) Commodities a duty on which might appreciably increase the cost of railway transport, such as locomotives and many other classes of railway material.

In each case the exceptional treatment of the articles concerned was based on broad grounds of national policy deliberately adopted which, it was held, must outweigh purely revenue considerations.

29. It appeared to us that the limits within which the grant of preferences might be considered were for the most part fixed by the principles of India's tariff policy outlined above. The classes of article subject to the ordinary rate of duty, or to higher rates, presented no special difficulties, but it was quite otherwise with the commodities on the Free List, and those subject to specially low rates. Here any material departure from the accepted policy could be justified, if at all, only on entirely exceptional grounds. Moreover, in some cases the articles which at present pay a low rate would normally be free of duty and have been taxed only on account of overriding financial exigencies. The protective duties also stood in a class apart. The instructions we received from the Government of India precluded the acceptance of any proposal which would have the effect of impairing the protection afforded to an Indian industry by an Act of the Indian legislature. Two of these Acts it is true, provide for the imposition of lower rates of duty on cotton piece-goods and on certain classes of iron and steel made in the United Kingdom than on similar goods made elsewhere. But the duties on iron and steel were fixed after a full investigation by the Tariff Board and will come under review in the statutory enquiry of 1933, while the duties on cotton piece-goods had already been referred to the Board before our negotiations commenced. In both cases the lower rates of duty on British goods were adopted not in the interests of the United Kingdom but in the interests of India and in pursuance of the policy of Discriminating Protection. These rates of duty could not, we were satisfied, become the subject of bargaining between ourselves and the British Delegation, and any modification in them must, we felt, be postponed until the Government of India had before them the considered recommendations of the Tariff Board.

30. The field within which the grant of preferences could be considered was therefore, we held, limited to the classes of commodities which are subject to the ordinary or to a higher rate, with the addition, however, of those classes of iron and steel which being excluded from the protective scheme have continued to be dutiable under Part IV of Schedule of the Indian Tariff Act. Before the policy of Discriminating Protection was adopted, most classes of iron and steel were subject to duties somewhat below the ordinary rate. In 1924, however, all the more important classes

became subject to protective duties, and since that date the special treatment of the residuum which remained in Part IV has ceased to be a matter of real importance. Within the field indicated, we felt that in considering the amount of any preference which could be granted due regard must be had to the importance of the Customs head as a source of Central Revenues and the desirability of keeping the ordinary rate of duty within moderate limits. A high rate of preference might necessitate the permanent retention of the duties at an undesirably high level if the necessary revenue was to be obtained.

31. In the foregoing paragraphs we have endeavoured to indicate the considerations by which we were guided throughout the negotiations. One final consideration of great importance remains to be mentioned. The scheme of constitutional reform which has been the subject of discussion between His Majesty's Government in the United Kingdom and the representatives of India contemplates the early establishment of a Federal Constitution for a Greater India, including not only British India but the Indian States. We were strongly of opinion that India ought not now, when the constitution is in the melting pot, to enter into any agreement which would limit the power of the new Government to shape its fiscal policy in accordance with its own conception of India's interests and of its place in the British Commonwealth of Nations. If therefore any Trade Agreement was to be acceptable to India it must be determinable at the instance of either party on due notice given.

CHAPTER III.

The Trade Agreement

32. Our discussions with the British Delegation and their officials commenced in London in the latter part of May, and continued until our departure for Ottawa on the 13th July and during the voyage. They were brought to a successful conclusion at Ottawa. It would serve no useful purpose to review the course of the negotiations, but we desire to take this opportunity of acknowledging the great courtesy consideration which we received at all times from the Members of the British Delegation and their Advisers. In our discussions with them we made no attempt to disguise the difficulties which had to be faced, but stated frankly the limitations on our freedom of action created by India's peculiar position and the fiscal policy which she had adopted. We were met by an equal frankness on their part, and we were deeply impressed by their readiness to appreciate India's point of view and their obvious desire to give the fullest consideration to the proposals we put forward on behalf of India. We shall always retain the happiest memories of the discussion in which we were privileged to participate.

33. The Agreement which was signed on the 20th August at Ottawa contains fourteen Articles, with eight attached Schedules and is annexed to this Report as Appendix E. Articles 1 to 8 and Schedules A to D contain the undertakings given on behalf of His Majesty's Government in the United Kingdom, and Articles 10 and 11 and Schedules F and G the undertakings given on behalf of the Government of India. Articles 9 and 12 with Schedules E and H contain the undertakings given and received by His Majesty's Government and the Government of India as regards trade between India and the Colonial Empire. Articles 13 and 14 are reciprocal and concern both Governments. It will be desirable, we think, that before we review the Agreement and its effect on Indian trade, we should state clearly what its provisions are. It will be convenient to take first the undertakings given by the United Kingdom.

34. Under various Acts of Parliament passed from time to time Indian goods of certain classes (such as tea, coffee and tobacco) are liable to duty on entry into the United Kingdom, and under the Import Duties Act all other classes of Indian goods—except those specified in Schedule I of that Act which are free of duty irrespective of their origin—become liable to duty on the 15th November 1932, unless before that date an Order in Council is made continuing the exemption from duty. The liability to duty of Indian goods under the earlier Acts is not affected by the Agreement, but Article 1 guarantees the continuance after the 15th November of free entry for Indian goods which would otherwise be liable to duty under the Import Duties Act Article 4 guarantees the maintenance of the existing margin of preference now enjoyed by the Indian goods included in Schedule C over similar foreign goods, whether that margin owes its origin to the earlier Acts or to the Import Duties Act, while Articles 2 and 3 provide for the grant of new or increased preferences in respect of the Indian goods included in Schedules A and B. Article 4 also provides that, if a greater preference is accorded to goods of the kinds specified in Schedule C originating in any other part of the Empire, such greater preference shall also be extended to India The effect of these Articles taken together is as follows. In so far as the goods receiving preferential treatment are dutiable under the earlier Acts, it is only the margin of preference which is guaranteed, and His Majesty's Government in the United Kingdom retains complete liberty to modify the rates of duty, so long as the difference between the duty on Indian goods and the duty on foreign goods is maintained, and so long as no other part of the Empire enjoys a larger preference than India. If, however, the goods are liable to duty under the Import Duties Act the position is different. So long as the Agreement remains in force, the duties applicable to foreign goods of the

classes specified in Schedule C cannot be reduced, for the effect would be to decrease the margin of preference accorded to Indian goods. It is, however, open to His Majesty's Government in the United Kingdom to reduce the duties on goods not included in either Schedule A or Schedule C. Finally, since Indian goods are guaranteed free entry, any increase in the duties will, whether the goods are scheduled or not, automatically increase to the same extent the margin of preference actually enjoyed.

35. Articles 5 and 6 contain special provisions applicable to certain commodities. Article 5 makes it possible to remove the duties on wheat in grain or lead if the Empire producers fail to supply either commodity in sufficient quantities at world prices. The Empire is a large exporter on balance of both commodities, and it would not be reasonable that Empire producers should take advantage of the preference to charge a higher price to consumers in the United Kingdom than they charge to consumers elsewhere. Article 6 relates to tobacco and is the only instance in the Agreement of a preference specifically settled for a long term of years. An identical Article appears in each of the Agreements between the United Kingdom and the other tobacco-producing countries of the Empire. The tariff preference on Empire tobacco was first accorded in 1919 and was increased to the present rate of 2*s*. 0½*d*. per lb. in July 1925. Under the Finance Act of 1926 the preference was stabilised at this rate for a period of ten years terminating on 31st July 1936 and by Article 6 of the Agreement this period has been extended to 1942—ten years from the date of the Agreement; but in this case His Majesty's Government have reserved to themselves liberty to reduce the duty below 2*s*. 0½*d*. a lb., in which case the preference would be the full amount of the duty. As the duty on foreign tobacco is at present 14*s*. a pound, a reduction to less than 2*s*. a pound does not at present appear probable.

36 Article 7 provides for exemption from duty under the Import Duties Act irrespective of origin of certain commodities in which India is interested, and Article 8 contains a special provision relating to raw cotton. Both articles are discussed in subsequent paragraphs of this Report. It will be convenient also to defer to a later stage consideration of Articles 9 and 12, which contain the provisions for the exchange of tariff preferences between India and the Colonial Empire.

37. Articles 10 and 11 contain the undertakings given on behalf of the Government of India Article 10 provides for the grant of preference to United Kingdom goods of the kinds specified in Schedule F. The margin of preference is 7½ per cent. in the case of motor vehicles and 10 per cent. in the case of all other commodities specified in this Schedule. Article 11 provides that the Government of India will consider in the light of the findings of the Tariff Board the duties to be imposed on goods of cotton and artificial silk according as they are produced in the United Kingdom or elsewhere, and provides further for the grant of a 10 per cent. preference on the goods of cotton, silk or artificial silk specified in Schedule G if, when the recommendations of the Tariff Board have been considered, protective duties are not imposed upon them. It may be well to explain the reasons why we felt. it impossible to include in Schedule F the goods separately listed in Schedule G. In principle there is no objection to a preference on textile goods which are not subject to protective duties, but we felt it would not be right to commit the Government of India finally until the Report of the Tariff Board had been received and considered. To attempt to anticipate their findings as regards particular classes of goods made of cotton or artificial silk would clearly be wrong, and although no question about the duties on silk goods has been referred to the Board, it was impossible to overlook the fact that the duties on silk and artificial silk were equalised only a year ago, and to alter the duties on silk goods while leaving those on artificial silk goods unchanged would lead to undesirable complications. It was for these reasons that the whole class of goods made from cotton, silk and artificial silk seemed to us to require separate treatment.

38. Both in Article 10 and Article 11 what is guaranteed is the margin of preference, and the Government of India retain complete liberty to give the preference either by increasing the duty on foreign goods or by reducing the duty on United Kingdom goods or by a combination of both methods. In view of the importance of the Customs head as a source of Central Revenues, the financial embarrassment of the Government, and the extremely disturbed economic condition of the world generally, it was out of the question to agree to the stabilisation of the duties at any particular level or to the admission of United Kingdom goods either free of duty or subject to a specified rate of duty, for the rates can only be fixed after due consideration has been given to the expenditure which the Government are likely to incur in any particular year, and the probable volume of imports, and as things stand to-day both factors are subject to wide fluctuations The British Government also retain under the Agreement complete freedom as regards these older duties, which are already an integral part of their revenue system, and it is only in respect of the new duties under the Import Duties Act that free entry is guaranteed to Indian goods. No similar concession could be made by India, for the Customs Revenue is the mainstay of Central Finance, and there is nothing in the Indian system corresponding to the new British duties, which in fact have never been levied upon Empire produce. The revenue given up by the continuance to free entry, therefore, is revenue which has never been collected.

39. We would invite special attention to the prefatory Note to Schedule F and to the notes placed against items 1 to 3, 59, 60, 74, 142 and 143 of the same Schedule. These notes exclude from the operation of the preference all goods which are at present free of duty, or dutiable under Parts II, III and IV of Schedule II of the Indian Tariff Act at specially low rates, or dutiable under the entries applicable to cotton, silk or artificial silk, or subject to protective duties under Part VII. It is in this way that we have been able to attain the object which from the outset we set before us, *viz.*, that, if an Agreement was made, the preferences given should not involve a departure from the established principles of Indian Tariff policy. It may be well, however, if we explain in a little more detail how the Agreement affects the protected industries.. The two principal protected industries are cotton and iron and steel. In both cases, so far as the commodities subject to protective duties are concerned, it will rest with the Government of India to decide, after the findings of the Tariff Board have been considered, whether, and if so to what extent, the proposals placed before the Legislature should provide for lower duties on United Kingdom goods than on similar foreign goods. The decision will depend on the degree of protection required by the Indian industry in each case, and the Agreement makes no stipulation on that subject. Commodities which are the products of a protected industry but are not subject to protective duties at present (and this applies to other protected industries besides cotton and iron and steel) are not excluded from the preference, but if at any time it is desired to bring new commodities within the protective scheme, it will be open to the Government of India to give notice under Article 14 of a variation in the Agreement and in this way to bring about the desired result.

40. Articles 1, 3, 6, 10 and 12 all provide that the preference shall extend to goods "which comply with the laws and statutory regulations for the time being in force defining Empire goods for the purpose of Customs Duties." This raises the question of Empire content which was discussed at Ottawa with the object of attaining greater uniformity (*vide* Chapter VII), but about which it was found impossible to reach agreement. In the United Kingdom the necessary laws and regulations have already been made, but in India the question is a new one, and it will be necessary to legislate on the subject. It is true that Notifications issued by the Government of India in the exercise of statutory powers define what are

to be considered iron or steel goods or cotton cloth of British manufacture. But the condition imposed by these Notifications is not a percentage of Empire content, whether in respect of labour or material, but the carrying out of all processes of manufacture, after a certain stage has been reached, in the United Kingdom; and while a condition of this kind is perfectly suitable when the object in view is not to tax a commodity more highly than is required for the protection of a domestic industry, it is neither appropriate nor practicable when a wide range of commodities is in question, and when the difference in the rates of duty is the result of an exchange of preferences between two countries. It would obviously be impossible to fix for each of the 163 classes of commodities specified in Schedule F a stage of manufacture all processes subsequent to which must be carried out in the United Kingdom. It will be necessary, therefore, for the Government of India to make new regulations which should, we think, be based generally on the model of those already adopted by the United Kingdom and the Dominions. In fixing the percentage to be required and in deciding whether the cost of labour and material incurred in any part of the Empire shall be taken into account, or only such costs as are incurred in those parts of the Empire with which India has entered into a Trade Agreement, the Government of India have an entirely free hand. This is a matter to which we shall recur in Chapter VII.

41. To complete our examination of the Agreement it is necessary to refer briefly to Articles 13 and 14. Article 13 is undeniably important, but does not call for detailed comment at this stage. It reaffirms on behalf of His Majesty's Government their established policy of extending to India tariff preferences accorded to any Dominion and contains a reciprocal undertaking by India to act in the same way. Article 14 empowers either party to the Agreement to give six months' notice of its denunciation, and also provides that notice may be given by either party of changes desired in the Agreement. In the latter case the proposed changes will become matters of mutual consultation, and if by the end of six months agreement is not reached, the party desiring the changes may give six months' notice of its intention to make them, and they will come into force at the end of that period. The importance of the latter provision on occasions when it is proposed to make new commodities subject to protective duties has already been noticed in paragraph 39, and it is clear that the Agreement cannot operate as a bar to India's industrial progress. The first part of the Article, on the other hand, leaves complete freedom to the new Government of Federal India to determine its fiscal policy according to its own judgment. As we have explained in paragraph 31, we regard this point as one of cardinal importance and we are glad that His Majesty's Government in the United Kingdom found it possible to meet us so completely.

CHAPTER IV.

The Schedules to the Trade Agreement.

42 In the last chapter we have described the Trade Agreement on its more technical side and explained the effect of its provisions. It remains that we should examine in more detail the classes of goods included in the various Schedules, and it will be convenient to begin with Schedules F and G, *i. e.*, the preferences given by India to the United Kingdom. Schedule F contains 163 separate items, and was framed on the basis of the classification in the Indian Trade Returns. It does not readily submit to summarisation, but the following Table (Table I) classifies the various items under the main heads:—

TABLE I.

Imports from the United Kingdom into India in 1929-30 of Goods of the Classes specified in Schedules F and G.

	Value £000
Schedule F.—	
Food and drink	1,398
Oils	229
Building and Engineering materials	461
Chemicals (unprotected)	936
Drugs and Medicines	583
Cutlery and Hardware	1,321
Instruments, apparatus and appliances	1,385
Iron and steel (unprotected)	1,761
Other metals	934
Paints and Painters' Materials	518
Paper and Stationery (unprotected)	713
Rubber Manufactures	834
Wool and Woollen Manufactures	945
Vehicles other than motor vehicles	763
Motor vehicles	1,097
Miscellaneous Manufactures	1,726
Machinery Electric Wires and Cables	750
Total	16,354
Schedule G.—	
Apparel	422
Haberdashery and Millinery	191
Cotton goods in Schedule G	386
Silk and Artificial Silk	71
Total	1,070
Total Schedule F	16,354
Total Schedule G	1,070
Total	17,424

In this Table the values of the imports from the United Kingdom in 1929-30 have been given, that being the last year before the depression in trade became acute. The value of the imports falling under the general description, articles of food and drink is £1·4 million, the principal items being ale and beer and canned and bottled provisions. Under the general heading, raw materials and articles mainly unmanufactured, oils of various kinds account for less than a quarter of a million pounds, and the

whole of the balance, as was to be expected, is included in the category of articles wholly or mainly manufactured. The total value in 1929-30 of goods imported from the United Kingdom of the classes specified in Schedule F is about £16·4 millions. A word of warning is necessary, however, as regards the figures. In the first place the acute economic depression now prevailing and the uncertainty of future developments make it extraordinarily difficult to determine what values may fairly be taken as normal, and the actual values in 1931-32 were much smaller. In the second place, the classification in the Trade Returns does not always coincide with the classification in the Tariff Schedule and to take concrete examples, we have found it impossible to ascertain accurately the value of the machinery and electric wire and cables dutiable under Part V of the Tariff Schedule. In some cases, therefore, the figures are approximate. Moreover, the value of the preferences cannot be assessed merely by applying the percentage of 7½ to the recorded value of the imports of motor vehicles and of 10 to the remainder. This is so, not only because the regulations regarding Empire content might exclude from preference part of the imports, but mainly because the Trade Returns do not attempt to classify imports according to origin but only according to the country from which they were imported. In view of the large entrepot trade of the United Kingdom, the value of the imports from that source must ordinarily be greater than the value of the imports actually manufactured in the United Kingdom. We are satisfied that the figure of £16·4 millions—the total of Schedule F of Table I—is a maximum figure and that the value of the imports which would have enjoyed the benefit of the preference in the year 1929-30, had the Agreement been then in force, would have been somewhat smaller. The value of the imports of the textile goods of the classes specified in Schedule G imported from the United Kingdom in 1929-30 was £1·1 million. This figure includes the whole value of the goods shown in the Trade Returns as apparel and haberdashery and millinery, which ought in fact to be divided between Schedule F and Schedule G according as the articles are dutiable as apparel or as silk and artifical silk. It is not possible, however, to make the apportionment, and the simplest course seems to be to treat the whole of the imports under these head as falling under Schedule G. The total value of the imports from the United Kingdom in 1929-30 of goods of the kinds specified in Schedules F and G may be taken as £17·4 millions.

43. We turn now to Schedules A to D, which specify the goods covered by the various undertakings of His Majesty's Government in the United Kingdom, and we propose to preface our detailed examination of these Schedules by certain observations of a general character. A large part of what India exports to the United Kingdom consists of raw materials of industry, and where that is the case the question of preferences is not free from difficulty The importing country has always to consider the interests of its own manufacturers, and must naturally be reluctant to impose duties which would increase their costs, more particularly when the finished products of industry are ultimately exported to foreign markets. Indian industries make such large use of indigenous materials that the question of the free entry of raw materials has not received great prominence, though in a few cases, such as sulphur and unwrought zinc, its importance has been realised. The emphasis has rather been laid on cheap machinery, for India utilises its own raw products and imports its machinery. In the United Kingdom, however, the position is reversed, for she makes her own machinery and imports her materials. Broad considerations of national policy may in her case make duties on certain materials inadmissible for reasons precisely analogous to those which have been held to necessitate the free entry of machinery into India, or at least its admission at the lowest rate of duty which is financially possible. These are the difficulties on the side of the importing country. But in certain cases the exporting country also may find that little or no advantage can accrue from a preference. It may for example, possess (as India in a few cases does) what amounts to a

monopoly of a particular material, and it is obvious that, when this is so, a preference in the importing country must be nugatory, or again, when the preference is accorded to several countries and their aggregate exports to the importing country already constitute a large proportion of its requirements, the preference cannot do much to extend the market for the produce of any of the countries concerned. These considerations are of some importance when India's exports to the United Kingdom come under review.

44. We propose to discuss first the goods specified in Schedule D. It was at our request that His Majesty's Government in the United Kingdom agreed that these commodities should be exempted from duty under the Import Duties Act, irrespective of the country of origin, and it is desirable that we should explain clearly the considerations which influenced us. The clearest case of all is raw jute. Here India possesses what is practically a monopoly, and the only competition is in an indirect form, namely the use of manufactures of other substances as substitutes for jute goods. India's sole interest is to secure for her product the freest possible sale in the widest possible market. The duty on foreign jute imported into the United Kingdom is of no practical advantage to India, and may even, for reasons explained in paragraph 46, operate as an impediment to the trade in Indian jute. We had no doubt whatever that jute should be transferred to the Free List.

45. It will be convenient to take next '*Crotalaria juncea* and any other varieties of Indian hemp which can be distinguished'. Here India has no sort of monopoly and her hemp is sold in competition with that of other countries, the principal competitor being *Cannabis Sativa* (European or true hemp). *Cannabis Sativa* is included in Schedule I of the Import Duties Act, and is therefore exempt from duty, but all other kinds of hemp, including Indian hemp, are subject to a duty of 10 per cent. *ad valorem* when produced by a non-Empire country. Practically, therefore, the duty on Indian hemp imported from foreign countries is of no value as a preference so long as the principal competitor is on the Free List. We should have been glad if it had been found possible to make the preference effective by imposing a duty on *Cannabis Sativa*, but the practical difficulties proved to be insuperable The Russian type of European hemp (which is imported into England from several Continental countries) definitely competes with Indian hemp for rope manufacture, but the principal import of Continental soft hemp into the United Kingdom consists of Italian hemp, much of which is used for spining—for the production of fabrics—and not for ropes or cordage, and is thus mainly non-competitive. Exact statistics are not obtainable, but the approximate quantity of the competing European hemp imported into the United Kingdom in 1929 was 4 500 tons, as against about 6,750 tons of Italian hemp, mainly non-competitive. If practical means could have been devised of distinguishing between the two qualities of *Cannabis Sativa* —one of them competitive and the other not—duty might have been imposed by the United Kingdom on the competing quality. It was not found possible, however, to frame a suitable formula or definition.

46. The position as regards hemp was found unsatisfactory in another respect. Two conditions are required for the free entry into the United Kingdom of natural products of Empire origin, namely:—

(1) Proof that the commodity is in fact of Empire origin, and

(2) Consignment on a through Bill of Lading from and Empire country.

A practice has grown up by which stocks of Indian hemp (and the same is true of raw jute and mica) are held at such Continental centres as Antwerp, Hamburg and Bremen. These stocks are sometimes held on consignment at the Indian exporters' charge, and cheap storage facilities, coupled in the case of hemp with the larger demand on the Continent for certain types, have led to an entrepot trade of some importance. The result of the passing of the Import Duties Act has been that when London

draws on the Continental stocks the Indian goods entering the United Kingdom have to pay duty because they are not consigned on a through Bill of Lading. In effect, therefore, the preference in such cases is of no practical benefit, but is, indeed, an actual impediment to the free sale of the Indian product. Irrespective of the fact that His Majesty's Government in the United Kingdom could not see their way to impose a duty on *Cannabis Sativa*, we were satisfied that it was eminently desirable to secure the removal of the duty on *Crotalaria Juncea* and other varieties of Indian hemp.

47. The other commodities specified in Schedule D may be noticed more briefly.

Mica.—India supplies about 80 per cent. of the United Kingdom requirements and other Empire countries about 10 per cent. The imports of mica of foreign origin must be less than the remaining 10 per cent., since imports of Indian mica from Continental stocks would be classified in the British Trade Returns as imports from the country from which the stocks were drawn. It was clear that the preference was of little value and in so far as the entrepot trade was hampered it was contrary to Indian interest.

Lac.—India has no dangerous rival in the production of this commodity and the duty on foreign lac can do very little to assist her trade. If it had any effect at all in the way of raising the price of lac in the United Kingdom it would be positively mischievous, for lac is exposed to the keenest competition from synthetic substitutes. We were clearly of opinion that the best course in India's interests was that lac should be free of duty, irrespective of origin, while the synthetic substitutes in so far as they are imported into, and not made in, the United Kingdom--should remain subject to duty.

Myrabolams.—In this case India has a practical monopoly, more than 99 per cent. of the United Kingdom's requirements being supplied by her. The preference can therefore do nothing to extend the market for the Indian product. On the other hand, there are many other tanning materials with which it is in competition. In our view it is best that myrabolams, as such, should be exempted from duty while the competing materials remain dutiable.

Broken rice.—The reason for securing exemption from duty, irrespective of origin, for this commodity, is that it is used both for the manufacture of starch farina and as a feeding stuff for domestic animals. In both respects it competes directly with a wide range of substitutes. Enquiry should that the supply of broken rice from Burma was not unlimited, and that the duty on foreign rice might produce a rise in prices which would entail a contraction in the demand. We considered it desirable that the duty should be removed.

Table II shows the value of the imports into the United Kingdom from India of the goods specified in Schedule D.

TABLE II.

Commodity.	Value of Imports into the United Kingdom from India in 1929.
	£000
Lac	1,396
Raw Jute	6,413
Myrabolams	249
Broken Rice	175
Mica	328
Indian Hemp	127
Total	8,688

48. The most important of all India's export commodities is raw cotton, and throughout the negotiations we lost no opportunity of making clear our view that all possible steps ought to be taken to promote its sale in the United Kingdom. In the five years from 1926 to 1930 India exported on an average 628,000 tons of cotton a year, but only 6 per cent. was consigned to the United Kingdom, while the United Kingdom imported 529,000 tons a year, but only $7\frac{1}{2}$ per cent. of this quantity was Indian cotton. The root cause of this disparity is well, known. The great bulk of the Indian cotton crop is of short staple, whereas the Lancashire industry has specialised more and more in the finer qualities of goods, for which long staple cotton is required. It is also true that by far the greater portion of India's requirements of cloth for which Indian cotton is suitable is manufactured in India itself. On the other hand, Lancashire makes cotton piecegoods for other markets besides India, the piecegoods imported into India from other countries are largely made from Indian cotton, and every year the quantity of longer staple cotton grown in India suitable for Lancashire use tends to increase. Discussions with the United Kingdom cotton trade representatives at Ottawa showed it to be common ground that the improvement in Indian cotton growing during recent years has made it practicable for English spinners to use substantially larger quantities of Indian cotton than hitherto, and that such a development would be of mutual benefit to both countries No special technical difficulties militate against an increased use of Indian cotton in Lancashire, and in the last few years the quantities purchased have shown an increase. In these circumstances we raised the question of a duty on foreign cotton in the United Kingdom but the British Delegation made it plain to us that they could not entertain this suggestion, and that the interests of their own industry placed it out of court. We have no reason to complain of this attitude, for the importance of cheap raw materials to a great industry, more particularly when it is mainly dependent on its export markets, is obvious; and indeed, when the question of the permanent retention of a duty on machinery in India, with a preference to the United Kingdom, was raised from the British side, the position we ourselves felt compelled to take up was not dissmilar. In both cases the interests of domestic industries were held to be paramount.

49. When a duty on foreign cotton imported into the United Kingdom was found to be impossible there still remained the question whether the increased use of Indian cotton by the spinners of the United Kingdom could be stimulated by other methods. It is the best Indian cottons—particularly the newer 'growths' of medium stapled cottons—which are most suited to Lancashire requirements, and the United Kingdom cotton trade representatives stated that, although the use of Indian cotton in Lancashire was undoubtedly spreading, the better types of Indian cotton are not widely known in Lancashire, and that in buying Indian cotton the Lancashire spinner is hampered by a lack of market facilities of the kind which he is accustomed to obtain when buying American or Egyptian cotton. Proposals were put forward for an organisation, on which the United Kingdom Cotton Trade Associations and the Indian Central Cotton Committee would be represented, the functions of which would be to bring the Lancashire spinner into closer touch with Indian sources of supply, and to arrange for the interchange of information and for such technical and commercial assistance as might be needed. We considered cotton research to be adequately provided for already, by the Indian Central Cotton Committee and by the British Cotton Industry Research Association, and that, while the United Kingdom cotton trade organisations must be the judges of what further propaganda is needed amongst Lancashire spinners in order to popularise Indian cotton, the removal of such marketing difficulties as exist is more important. Considerable advantage should be derived from any organisation which would ensure the presence, at all times, in Lancashire of stocks of Indian cotton large enough to meet spinners' requirements promptly and to afford and adequate selection; stocks

of the desired size and variety are unlikely to be carried by purely commercial concerns until the demand for Indian cotton in Lancashire is both larger and more certain than at present. No difficulty would be met with by an organisation of the type proposed in furnishing United Kingdom spinners with full information about the quality and supply of the various Indian cottons. The results of our discussions at Ottawa were to be placed before the various Cotton Trade Associations of the United Kingdom on their return in order that a definite scheme might be prepared. In a report published on their return from Ottawa, the United Kingdom cotton trade representatives emphasise the importance of increasing Lancashire's consumption of Indian cotton, and refer to early arrangements for placing their proposals before the trade in detail. In Article 8 of the Agreement, His Majesty's Government promise their co-operation in any practicable scheme on these lines; it is unnecessary to emphasise the potential value of this provision. A wider market for the improved types of Indian cotton would be of real value to the Indian cotton grower and would do much to encourage the development of cotton growing in India on sound lines with properly balanced production of the different types and staples. With the increased area available for the production of medium staple cotton as a result of the completion of the Lloyd Barrage Canal scheme in Sind this is a matter of great importance.

50. Another very important Indian export commodity is manganese. During the five years 1926 to 1930 India exported 600,000 tons on the average, while the United Kingdom imported 200,000 tons a year, so that the Indian trade is largely dependent on the Continental markets, and in these the competition of low-grade Russian ore has in recent years become very severe. In the United Kingdom, however, Indian manganese still retains its predominance, the supplies from India amounting to 83 per cent. of the quantity imported from 1926 to 1930. The higher grade of the ore makes it suitable for the steel manufacturing processes mainly in use in the United Kingdom, and it is because other processes are often used on the Continent that the low-grade ore has found favour there. We made special enquiries to ascertain whether the reorganisation contemplated in the British iron and steel industry might lead to the adoption of processes involving a larger use of the low-grade ore, but the assurances we received satisfied us that this was unlikely. Manganese, being a raw material of industry, is free of duty in the United Kingdom and not included in any of the Schedules to the Agreement. We thought it worth while, however, to mention it here, because the Indian production has already diminished considerably under the pressure of foreign competition and if India's position in the United Kingdom market were ever threatened, it might be necessary to take the matter up again. The imports of foreign ore into the United Kingdom should, we think, be kept under observation.

51. It is not necessary to discuss in much detail the goods specified in Schedule C, on which the maintenance of the existing margin of preference is guaranteed. In all cases, with the exception of tobacco and tea, the preferences originated with the Import Duties Act, and are the result of the new policy adopted by His Majesty's Government in the United Kingdom. In some cases, such as coir manufactures, tanned hides and skins, jute manufactures, teak, castor seed, tea and groundnuts, while there may be some expansion of the demand for Indian products, the chief importance of the preference is that is secures the trade against actual or potential competition and ensures the maintenance of the position which India has already acquired in the United Kingdom markets. In other cases, such as oilseed cake and meal, paraffin wax, hardwoods other than teak, and woollen carpets and rugs, there is more room for development, and the effect of the preference should be a gradual increase in the demand for Indian products. Three of the commodities in this Schedule, namely magnesite, sandalwood oil, granite setts and kerbs, were specially brought to our notice by producers in the Indian States, and we hope that the

preferences now guaranteed will be of benefit to the States concerned. The preference on granite setts and kerbs is of special interest as it may possibly lead to the development of a new trade. The value of the imports from India into the United Kingdom of the goods specified in Schedule C is shown in Table III. It amounts to £$38\frac{1}{4}$ million, the largest single item being tea, which accounts for £20 million. The margins of preference are also shown in the Table. In most cases it is 10 per cent. *ad valorem*, but on cotton and jute manufactures and woollen carpets and rugs it is 20 per cent. The margin of preference on tea is 2*d*. a pound, on unmanufactured tobacco 2*s*. $0\frac{1}{2}d$ a pound and on cigars 3*s*. $10\frac{3}{4}d$. a pound.

TABLE III.

Commodity.	Value of trade in 1929.	Preference.
	£ 000.	
Tea	20,083	*2*d*. per lb.
Coir yarn	619	10 per cent.
Coir mats and matting	438	20 „
Cotton yarn	12	10 „
Cotton manufactures	189	20 „
Leather undressed, Hides (other than for sole leather)	2,337	10 „
Leather undressed, Skins (other than for sole leather)	2,755	10 „
Jute manufactures	2,798	20 „
Oilseed cake and meal	1,106	10 „
Spices	1,322	10 „
Teak (hewn and sawn)	965	10 „
Other hardwoods (hewn and sawn)	80	10 „
Woollen carpets and rugs	546	20 „
Bran and pollards	2	10 „
Rice meal and dust	1,388	10 „
Lead	1,216	10 „
Tobacco, unmanufactured	335	†2*s*. $0\frac{1}{2}d$. per lb.
Tobacco, manufactued—cigars	13	‡3*s*. $10\frac{3}{4}d$. „
Castor seed	510	10 per cent.
Magnesite	5	10 „
Sandalwood oil	89	10 „
Granite setts and kerbs	(new trade)	15 „
Groundnuts	1,456	10 „
Total	38,264	

* Volume of trade in 1929 = 307 million lbs.

† Volume of trade in 1929 = 9 million lbs.

‡ Volume of trade in 1929 = 49 thousand lbs.

52. As has already been explained. Indian goods otherwise liable to duty under the Import Duties Act have been guaranteed free entry into the United Kingdom by Article 1 of the Agreement. It follows that so long as the United Kingdom retains a duty on imports from foreign countries of those classes of goods imported from India which are not specified in any of the Schedules, India will in fact receive a preference. The most important classes of goods in this category appear to be barley, pulses and miscellaneous foodgrains, manure and bones, raw goat skins and asbestos, and the value of such goods imported into the United Kingdom from India in 1929, as nearly as can be ascertained, is £$1\frac{1}{3}$ million.

The total value of the goods imported from India into the United Kingdom in 1929, which if the Agreement had been in force in that year would have received a preference, is as follows:—

	£000
Schedule A	2,093
Schedule B	168
Schedule C	38,264
Unscheduled	1,343
Total	41,868

The total is about two-thirds of the value of all goods imported from India into the United Kingdom in 1929.

53. Schedules A and B specify six classes of goods on which the Agreement secures for India new or increased preferences. Three of them need only be noticed briefly. The preference of 2*s*. a quarter on wheat is one in which the Dominions are much more vitally interested, as things are today, than India can be, so long as her exports remain negligible in amount and the present level of world prices continues. But it is a matter of real concern to India that she should not be left out of any arrangement connected with wheat into which the Dominions and the United Kingdom may enter, and the preference may be of appreciable value to her when the most recent irrigation schemes, and particularly the Sukkur Barage, bring about, as they are expected to do, a substantial increase in India's wheat acreage. Another commodity of greater importance to certain Dominions and Colonies than to India is coffee. Here, however, the Indian production is largely dependent on the export demand, and since the United Kingdom consumes nearly three times as much coffee as India exports, an increase in the preference is likely to result in a larger demand for Indian coffee. The existing preference of 2*s*. 4*d*. a cwt., which has been in force since 1919, has been of some value, but even at the present low level of prices it only amounts to 1½ per cent. *ad valorem*, and for the five years 1926 to 1930 only 45 per cent. of the United Kingdom's requirements were supplied by Empire coffee, and India's share was only 8½ per cent. The preference will now be increased to 9*s*. 4*d*. a cwt., and as most of the foreign coffee imported into the United Kingdom is of the mild type and similar to good quality Indian coffee, it is reasonable to expect that the consumption of Indian coffee in the United Kingdom will increase substantially. The State of Mysore is greatly interested in the production of coffee, and we hope that the preference now obtained will be of benefit to this State in particular, as well as to the coffee-growing areas in British India. The third Indian product which may be noticed here is magnesium chloride, which is produced in one of the salt areas in Kathiawar. The new duty to be imposed on magnesium chloride imported from foreign sources is 1*s*. an hundredweight, and from the information suplied to us by the producers in India, it seems probable that the preference will enable them to supply part of the requirements of the British market.

54. The most important of the new preferences is that on linseed, on which a duty of 10 per cent. is to be imposed in the United Kingdom. Linseed is a prominent constituent of one of the most important groups of Indian exports—the oilseeds. In recent years Indian exports of linseed have shown a declining tendency and have never recovered their pre-war volume. During the quinquennium 1926 to 1930 the average imports of the United Kingdom amounted to 314,000 tons a year, while during the same period India's exports averaged 215,000 tons a year, one-quarter of which was taken by the United Kingdom. It is obvious that in these circumstances the United Kingdom is in a position to absorb a much larger quantity of linseed than India exports and the new preference should lead to a marked increase in India's output of this class of oilseed. It does not

appear that the decline in Indian production has been brought about by any factor other than waning demand, and the fact that Indian linseed production reached 533,000 tons in 1922-23 as compared with 257,000 tons in 1930-31 shows that there is considerable room for expansion. Indeed, with the fall in the prices of cereals and cotton, there is abundant scope for a substantial increase of production in several Indian provinces. An enlargement of the area under linseed in India by two million acres (representing an additional production of at least 250,000 tons) should not be difficult of attainment in a year or two in response to an increased demand. It appears to us that from the Indian point of view the preference is of great importance to agriculture and ought to lead to a substanial increase in Indian exports.

55. The United Kingdom is a large buyer of linseed—the oil being required for industrial purposes and the cake as a feeding stuff—and at present she draws by far the larger portion of her supplies from the Argentine. The price at which her industrialists and farmers can obtain these commodities is of course a matter of great importance to her, and it would be idle to hope that the preference could be of long continuance unless Indian production increases in proportion to the increased demand. The extraordinary elasticity of Indian agricultural production in response to variations in world demand leads us to believe that India can without difficulty meet a very large part of the United Kingdom's requirements, but the matter is of such importance that we think the attention of the Agricultural Departments in the Provinces should be specially drawn to it.

56. An enhanced preference of considerable importance is that on vegetable oils, the duty on six of which, *viz.*, castor oil, coconut oil, linseed oil, rape oil, groundnut oil and sesamum oil, will be raised from 10 per cent. to 15 per cent. India has an expanding industry with great possibilities and an export trade of considerable importance. Most of the Indian exports are absorbed by Eastern markets, but the United Kingdom is already an important purchaser of vegetable oils from India, and also buys from the Continent of Europe vegetable oils which India could well supply and indeed already exports. Since Indian products are at a certain disadvantage (due to expensive packing and high sea freight) an increased preference was a matter of importance.

57. The last of the enhanced preferences to be considered is that on rice, where the duty will be raised from 10 per cent. *ad valorem* to 1*d.* a pound. At present the United Kingdom takes about one-third of its supplies from India and Burma and two-thirds from foreign sources. Our examination of the position and the information we received from representatives of the United Kingdom rice milling industry satisfied us that there was no reason why India and Burma should not meet the whole demand, but that this result could not be brought about except under the stimulus of a very substantial preference. Great progress has been made by the United Kingdom rice millers in finding types of Indian rice suitable for all branches of the United Kingdom retail trade, the Indian Empire is by far the largest producer and exporter of rice in the world, and the price of Indian rice is low compared to that of the American and Spanish rices which compete with it on the United Kingdom market. The demand, however, is affected not only by price but by minor matters such as the method of packing and polishing, which are really matters of fashion. We were also informed that Spanish rice was often shipped by small coastal steamer direct to a number of small ports in the United Kingdom and sold direct to grocers on terms which made competition difficult. With the enhanced preference, however, rice from India and Burma should be able to displace the foreign rice, and since the whole demand of the United Kingdom is only 3 per cent. of India's exports there can be no danger of prices being raised against the consumer, for the competition between the Indian suppliers is very keen.

CHAPTER V.

India and the Colonial Empire.

58. The position as between India and what it has become customary to call the Colonial Empire is a somewhat complicated one, and for this reason we have thought it better to deal with Articles 9 and 12 of the Agreement in a separate Chapter of the Report. The term 'Colonial Empire' covers a large number of territories in many different parts of the world, differing from each other in status and in the extent to which authority has been devolved on the local administrations and legislatures. The only differences, however, which are relevant for our purpose are those which bear on their ability to enter into preferential trade agreements and the extent to which preferential rates of duty find a place in their tariffs.

59. At present certain parts of the Colonial Empire are precluded by international obligation from granting preference. In Kenya, Uganda, Tanganyika, Zanzibar, Nyasaland and part of Northern Rhodesia the disability arises from the Convention of St. Germain-en-Laye, 1919. The possibility of terminating the obligations of the Convention which have this effect is under examination by His Majesty's Government in the United Kingdom, but we understand it is clear that they must remain effective at least until 1935. Further information regarding this Treaty will be found in Appendix F. In Tanganyika there is a double disability, for the grant of preferences would be a violation of the Treaty of Versailles, and the same is true of the other territories mandated to His Majesty's Government in the United Kingdom. In the Gold Coast and Nigeria the grant of preferences is precluded by the Anglo French Convention of 1898. This Convention is subject to denunciation by giving one year's notice.

60. The remaining Colonies and Protectorates are not prevented by any international commitment from granting preferences, but each of them has to consider what is the tariff policy best adopted to its own interests, and their ability to give any preference of substantial value to India varies widely. The present position is as follows :—

(1) In most of the West Indies, Sierra Leone, Gambia, the Somaliland Protectorate, Gibraltar and Cyprus there is a preferential tariff for goods imported from British Empire countries, including India. The only Indian exports of substantial importance that receive these preferences are jute manufactures and rice to the West Indies (to an annual value of about 40 lakhs), the margins of preference being normally about 5 per cent. of the value of the goods in the former case and varying from 6*s.* to 1*s.* 6*d.* per 100 lbs. in the latter.

(2) In that part of Northern Rhodesia where the Convention of St. Germain-en-Laye is not applicable India has the benefit of a preferential tariff, but there is a more favourable tariff for the United Kingdom and other reciprocating countries. There are also Customs agreements with the Union of South Africa, Southern Rhodesia and the territories administered by the High Commissioner for South Africa, which provide for free trade between those territories except in excisable commodities.

(3) Fiji gives preferences on goods imported from Empire countries, including India, and special preferences to the United Kingdom. Canada and New Zealand. Mauritius gives preferences on certain goods imported from the United Kingdom and Canada in return for a special preference on sugar.

(4) Ceylon does not at present give any preferences, but a resolution has recently been passed by the Ceylon Legislature in favour of granting preferences to Empire countries on the basis of reciprocity.

(5) In Hong Kong there are no import duties except on liquors, tobacco and light oils. The trade of this port is mainly an entrepot trade, and it has no hinterland. The imposition of a general tariff would be

likely to reduce the trade of the port and would be contrary to the interests of the Colony. Hong Kong in fact is not in a position to grant preference to Empire countries.

(6) The position in Malaya is more complicated, since account must be taken not only of the Straits Settlements proper, but also of the States, Federated and Unfederated. The position of the Straits Settlements is not dissimilar to that of Hong Kong, In both cases the entrepot trade is very extensive, and though the Straits Settlements have a hinterland it is a very small one. Singapore and Penang are free ports except that duties are imposed on liquors, petroleum and tobacco, and some small preferences have recently been granted under these heads. For practical reasons the Straits Settlements can do but little in this direction. The States, however, are in a different position. The Federated Malay States have recently granted preferences on a few commodities to the United Kingdom and to certain other parts of the Empire, but had not extended these to India before the Ottawa Conference In the Unfederated States there are at present no preferences, but the principle of preference has been accepted.

The position of the remaining Colonies and Protectorates does not call for special comment.

61. Article 9 of the Agreement provides that His Majesty's Government in the United Kingdom will invite the Governments of the non-self-governing Colonies and Protectorates to accord to India any preference which may for the time being be accorded to any other part of the British Empire, and Article 12 reciprocally provides that the Government of India will invite the Legislature to pass the legislation necessary to secure to the Colonies and Protectorates, and certain Mandated Territories under British Mandate, any preferences from time to time accorded to the United Kingdom, if His Majesty's Government in the United Kingdom so requests We regard these provisions as very important The British Delegation made it clear to us that in their view the Colonial Empire should be treated as a whole, and that they attached great importance to securing this result. The acceptance of this view involved the grant of preferences by India to certain Colonies and Mandated Territories although they are debarred by international obligations from reciprocating. We on our side set an equally high value on securing acceptance of the principle that in the tariff arrangements of the Colonial Empire India should receive treatment at least as favourable as that accorded to any other part of the Empire. We should have been sorry indeed if, as a result of the agreements concluded at Ottawa, the trade of India had been placed in a less favourable position in any Empire country than it previously occupied and this was a danger against which we had constantly to be on our guard. In virtue of the Agreement India has now secured the continuance of the preference she at present enjoys in the West Indies and certain other Colonies, the retention of which could not be guaranteed except on the basis of reciprocity. She has secured equal treatment with the United Kingdom and other Empire countries in Fiji, Mauritius and Northern Rhodesia, and she has secured a share in all preferences which may hereafter be granted by those Colonies and Protectorates, such as Ceylon and the Federated Malay States, which are now about to introduce preferences into their tariffs for the first time. It is not only the existing trade which has to be considered. If a long view is taken and allowance made for the probable developments of the coming years, India's exports of manufactured articles to the countries abutting on the Indian Ocean should steadily increase and the existence of a preference in certain Colonies should do much to promote the growth of this trade. The East African Colonies, it is true, are precluded by the Convention of St. Germain-en-Laye from granting reciprocal preferences at present, but it is not impossible that ways may be found of removing the difficulty, and in our view it would

have been a grave error of judgment to have lost this opportunity of establishing an important principle. It is to be noted, moreover, that the preferences which India will extend to all Colonies and Protectorates by the reciprocal provisions of Articles 9 and 12 are only those which may be accorded from time to time to the United Kingdom, and more than 90 per cent. of these relate to manufactured goods in which the Colonies, at their present stage of development, are little interested. The only commodity in Schedules F and G which is likely to be imported from any of the Colonies, Protectorates and Mandated Territories in Africa is soda ash, the imports of which from Kenya in 1929-30 were valued at 7.2* lakhs. The obligation incurred by India is therefore not a heavy one so far as those parts of the Colonial Empire which cannot grant reciprocal preferences are concerned. Our considered view is that India gains a very substantial advantage at a very low cost.

62. It will be noticed that Schedule "E" contains a special reservation so far as Malaya is concerned, since the preferences to be accorded to India will be granted by "those Governments of British Malaya with whose tariff policy it is consistent to impose duties on the commodities in question". This was a reservation to which we could not object. Throughout the negotiations we had consistently adhered to the position that the question whether in India there should be a duty on a particular class of commodities or not was a domestic matter to be decided by the Indian Government and Legislature in accordance with India's interests, and that it was only when the duty held a permanent place in India's tariff system that a basis for negotiation existed. Clearly we could have no cause for complaint when other Empire Governments took up a similar position. The special reason for the reservation in the case of Malaya is the entrepot trade of the Straits Settlements, which renders the adoption of anything like a general tariff peculiarly difficult, and also the nature of the duties imposed by the States. The Federated States form a Customs Union with a single tariff, but each of the Unfederated States has its own tariff, and there is no uniformity in the selection of the articles which are to be subject to duty. A similar reservation has been made on behalf of the Government of India in Schedule H in respect of fruits, fresh or preserved.

63. Article 9 of the Agreement provides that His Majesty's Government will invite the Governments of certain Colonies and Protectorates to accord to India new or additional preferences on the commodities specified in Schedule E and at the rates shown therein, and Article 12 similarly provides for the grant of preferences by India in respect of the commodities and at the rates shown in Schedule H. The Colonies and Protectorates which under Article 9 will grant new preferences to India are Ceylon and the various Governments of Malaya, while India on her part will grant the preferences to all parts of the Colonial Empire. It might seem that the preferences granted by India have not been fully reciprocated, since the new preferences she will receive are to be granted only by Ceylon and Malaya. There are, however, several considerations to be kept in view. Some of the Colonies and Protectorates have already given to India the benefit of all preferences on their tariff, and all of them, not debarred by international obligations from doing so, will extend to her all preferences, past and future, accorded to other parts of the Empire. The value we attach to this consideration has already been explained and need not be repeated. In the second place, as soon as the question was raised of the grant of new preferences by such Colonies as Fiji and Mauritius, it became evident that a bargain could not be struck unless India was prepared to grant a preference on sugar Any concession by India in this region we found impracticable, both because of the magnitude of the revenue interests involved and because sugar manufacture is a protected industry in India. Each of the Colonies and Protectorates has its own interests to consider, and must shape its tariff policy in accordance with

* Soda ash is also Specified in Schedule "H".

them. We found indeed that any attempt to conclude separate agreements with the various parts of the Colonial Empire would be attended by insuperable difficulties, and that quite apart from the considerations already mentioned, it was necessary for purely practical reasons to deal with the Colonial Empire as a whole so far as India was concerned. International obligations rendered separate agreements with the East African Colonies, Protectorates and Mandated Territories impossible. Of the remaining members of the Colonial Empire, Ceylon and Malaya are by far the most important purchasers of Indian goods, and both of them are about to include preferences in their tariffs for the first time. From the practical point of view it was the benefit to Indian trade which might be acquired in these regions which was of vital importance.

64. The principal commodities in Schedule E on which Ceylon will grant preferences to India are cotton manufactures, fruit and vegetables, pig-lead, teak and other hardwoods, tobacco, and woollen carpets and rugs. In the Malayan part of the schedule the principal items are cotton piece-goods, tanned hides and skins, paraffin wax, fish maws and shark fins, groundnuts and groundnut oil. The fact that the Malayan list preferences is much the shorter of the two is explained by the nature of the Malayan tariffs which, even in the Federated States, cover a much smaller range of commodities than the Ceylon tariff. In both cases the bulk of the preferences will be at the rate of 10 per cent *ad valorem*, but the preferences on tea, coffee and tobacco in Ceylon and on groundnut oil and gingelly oil in Malaya are at specific rates.

65. There is one commodity which we should have been particularly glad to see included in Schedule E, namely cleaned rice, and we did all in our power to bring about this result, for in all the Eastern markets Indian and Burmese rice has to meet keen competition from the rice produced in other Asiatic countries, such as Siam and Indo-China. Our efforts, however, were unsuccessful. Rice is on the free list in Malaya and is subject to a low revenue duty of Re. 1 a cwt. in Ceylon. It is not at present consistent with the tariff policy of the Malayan Governments to impose a duty on rice, and we were assured that owing to the prevailing economic distress any measure which seemed likely to make rice dearer would have serious repercussions. In Ceylon the difficulty was that the Government were unwilling to raise the duty on foreign rice and could not in existing financial circumstances forego the revenue accruing from the duty on Indian rice, which constitutes more than 90 per cent. of the imports. As we have already explained we were not prepared to agree on behalf of India to the imposition of any duty merely for the purpose of granting preference, and we could not expect the Malayan Government to adopt a different attitude. The situation as regards Ceylon ought, we think, to be kept under continuous observation. If there should be any substantial increase in the proportion of foreign rice imported into Ceylon, it would certainly be open to the Government of India to make representations to His Majesty's Government in the United Kingdom with the object of concerting measures to meet such a situation, either by a preference or by a quota arrangement or by some other means. From the Ceylon side it would certainly be regarded as important that the measures taken should not have the effect of raising the c.i.f. price in Ceylon above the world price. If this point could be met, as we think it could, we are confident that any representations made by the Government of India would receive the full and sympathetic consideration of His Majesty's Government.

66. Most of the commodities included in Schedule H are those in which Ceylon and Malaya are interested. The only commodities of special interest to other Colonies are asphalt (Trinidad), rum, bitters and fruit juice (Jamaica and other West Indian Colonies), fresh vegetables, sisal fibre and soda ash (Kenya), and unground spices (Zanzibar). Ceylon is specially interested in the preferences on coconuts, coconut products and plumbago and Malaya in the preference on betelnuts. Both Ceylon and Malaya are concerned in most of the other items. Schedule H provides for preferences at specific rates on coffee, tea, tobacco, rum and bitters, at

the rate of $7\frac{1}{2}$ per cent. *ad valorem* on betelnuts and unground spices, and at the rate of 10 per cent. on all other commodities in the Schedule.

67. We have found that any attempt to assess the value of the preferences exchanged between India and the Colonial Empire, by working out the value of the imported goods which will receive preferential treatment, is attended by insuperable difficulties. No complete trade returns are obtainable for some of the Colonies, and in the absence of such returns the Indian export figures have to be used, a method which is clearly unsatisfactory. But there is another difficulty which is much more serious. If the balance sheet were drawn up on the basis of the Trade Returns the figures relating to Malaya would bulk very largely in it, but on both sides of the account they would be equally misleading. In view of the enormous entrepot trade of Singapore it is quite impossible to treat the exports of any commodity to the Straits Settlements, shown in the Trade Returns, as representing the consumption of that commodity in British Malaya. In each case a substantial deduction would have to be made, and we have no means of ascertaining what percentage it would be reasonable to deduct. Conversely, the imports of tropical produce from the Straits Settlements as shown in the Trade Returns cannot be taken as even approximately representing what is actual produce of British Malaya, for Singapore is the collecting centre for the whole of the Far East and a high proportion of what comes from there to India is produced in foreign territories. Betelnuts and unground spices are the two most important items in Schedule H, and the value of the betelnuts imported in 1929-30 from the Colonial Empire (mainly from the Straits Settlements) was Rs. 246 lakhs, and of unground spices Rs. 67 lakhs. In view of the financial importance of the preference on betelnuts—it was for this reason that the preference was limited to $7\frac{1}{2}$ per cent.—we made special efforts to ascertain the value of the imports which were actually the produce of British Malaya, and it appeared that the value was probably slightly less than one-third of the imports from the Straits Settlements This figure is only an estimate, however, and lacks confirmation. To take another example, only a small part of the imports from Hong Kong can be the products of the Colony, for there the trade is almost entirely entrepot trade.

68. What has been said in the last paragraph will make it clear that in order to prevent the abuse of the preferential system it will be necessary to devise a satisfactory system of certificates to establish adequately the Empire origin of the commodities on which the preferences are claimed. We made it clear to the British Delegation that the Government of India would attach great importance to this, and we are sure that they can rely on the cordial co-operation of the Malayan Governments who obviously must desire that the benefit of the concessions secured should be confined to those territories for whom it was intended and should not be captured by those who have no title to it.

69. For the reasons given in paragraph 67, we have come to the conclusion that no figures we could present would be of real value. There are, however, two or three points to be noted. As things are to-day, the value of the imports from Malaya on which the preferences can be claimed may exceed substantially the value of the commodities on which India will receive preferences in Malaya. That arises from the nature of the trade between the two countries and the much wider range of the Indian tariff. If Malaya is excluded and the figures for the rest of the Colonial Empire could be worked out satisfactorily, the balance of advantage would seem to be somewhat in favour of India. If both sets of figures were taken together, India would probably be found to be giving preferences on goods of a somewhat higher value than that of the goods on which she receives preferences from the Colonial Empire. We think that India may well be content that this should be so for the present, for the growth of her exports of manufactures may before long do much to redress any adverse balance. Of the value to India of the Agreement in so far as it relates to the Colonial Empire we have no doubt, for it establishes the principle that in no part of it shall India be placed at a disadvantage in competition with any other Empire country.

CHAPTER VI.

IRON AND STEEL.

70. From an early stage of our discussions with the British Delegation it became evident that the tariff on iron and steel in both countries was likely to be a crucial point in the negotiations, and it was one which was for us the subject of much anxious consideration. The questions to be settled were indeed so important and so difficult that it was found impossible to reach a final conclusion at Ottawa, and they were postponed for further discussion in London after our return to England, where they were successfully completed. The subject was therefore reserved for a separate chapter in our Report.

71. Pig-iron has been exported from India in substantial quantities for a number of years. These exports commenced before 1914, but it was not until after the War that they became very important, owing to the erection, both in the coal-fields and at Jamshedpur, of large modern blast furnaces capable of a high daily output at a low cost. The exports from 1921 onwards are shown in Table IV. It will be seen that during these years Japan has been by far the largest purchaser of Indian pig-iron, but considerable quantities have also, from time to time, been consigned to the west coast of America, and in the latter part of the period the exports to the United Kingdom have substantially increased. The continuance of these exports on anything approaching the present scale is, however, seriously threatened. It will be seen from the table that Japan's purchases have greatly diminished, and all the information we have been able to obtain leads us to believe that in future much the major portion of her requirements is likely to be supplied from the blast furnaces already in existence in Manchuria or from furnaces in Japan itself. It follows that, if India's production of pig-iron is not to suffer a heavy reduction, enlarged outlets for Indian pig-iron must be sought in other directions. How serious the position is may be judged from the fact that India's blast furnace capacity exceed 1½ million tons of pig-iron a year, while the annual demand for foundry iron in the country itself has rarely, if even, been as high as 150,000 tons a year, and the demand for steel manufacture at the present rate of output is 500,000 tons, making 650,000 tons in all.

TABLE IV.

Exports of Pig-Iron in 000 Tons from India.

Year.	Destination—				Total Exports.
	Japan.	U. S. A.	United Kingdom.	All other countries.	
1921-22	58	..	..	1	59
1922-23	112	3	..	3	118
1923-24	144	24	3	12	183
1924-25	171	134	19	17	341
1925-26	168	156	20	38	382
1926-27	234	40	16	19	309
1927-28	271	65	21	36	393
1928-29	353	52	5	39	449
1929-30	349	86	71	62	568
1930-31	160	108	99	72	439
1931-32	188	51	69	42	350

72. India's ability to export pig-iron at low prices is the result of the great natural advantage she possesses for this line of manufacture. The iron ore deposits in Singhbum and the Orissa States are of the highest quality, coal supplies are abundant, and the iron ore and the coal are so near each other that the rail freight does not seriously add to the cost. It is the possession of these natural advantages which was held in 1924 to justify the protection of the Steel Industry, for there was ample ground for believing that at no very remote date the industry would be able to hold its own against world competition without State assistance. The development of the industry has now reached a particularly interesting stage, for costs have been brought down to a level at which the export of steel rails and semi-finished steel in the shape of sheet bars and billets begins to be possible. The export of steel rails to Europe is not at present a practical proposition, but sheet bar and billets have already been exported to the United Kingdom, and if new impediments to the trade are not erected important developments are probable in the next few years. This is a point which closely concerns the Indian steel manufacturer. The world-wide trade depression has led to a rapid decline in the Indian demand for all forms of rolled steel, and in particular the quantity of steel rails taken by the Indian railways has fallen from 200,000 tons, which the Tariff Board in 1926 estimated to be their annual requirements, to about 40,000 tons in the current year. The result is that, while the merchant bar and sheet mills at Jamshedpur are working to capacity, the other mills are nothing like fully employed—the surplus capacity of the sheet bar and billet mill, for example, is about 200,000 tons a year and the total output of all the mills is far below the melting capacity of the steel furnaces. In these circumstances the creation of a new outlet for substantial quantities of sheet bars and billets would do much to compensate for the falling off in the demand for rails.

73. Some of the manufacturers of sheet in the United Kingdom use their own sheet bars, but others purchase the bars they use, and in recent years very large quantities of sheet bar have been imported from the Continent of Europe. So long as iron and steel was allowed free entry into the United Kingdom from all sources, the export of semi-finished steel from India to Great Britain, though not altogether impossible, was difficult, and, owing to the rail freight from Jamshedpur to Calcutta and the sea freight from Calcutta, could only be effected at sacrificial prices. The imposition of the new duties on foreign steel under the Import Duties Act, however, altered the position completely. The opportunity was now offered to Indian steel to replace a large proportion of the sheet bar previously imported from the Continent, and the new outlet for their goods, so badly needed by the Indian steel manufacturers, had come into existence. But if advantage was to be taken of this new opening action must be taken at once and could not be postponed. For many reasons we should have been glad if consideration of these questions could have been deferred at least until the commencement of the statutory enquiry into the Steel Industry in 1933, but this was not possible. It was not only that there was no guarantee that the free entry of Indian iron and steel would be continued after the 15th November of this year. The British Tariff Advisory Committee, in announcing the increase of the duties on certain classes of iron and steel to $33\frac{1}{2}$ per cent. in June last, made it evident that adequate measures would be taken to protect the British Iron and Steel Industry: but it was also made clear that the industry on its side must take immediate steps to reorganise itself and to reach the highest possible standard of efficiency. As soon as the reorganisation came under discussion, the question would inevitably arise how the imports from the Continent were to be replaced. If agreement could be reached with the British Government, Indian pig-iron and steel would replace much of the Continental material, but if agreement were not reached before the general lines of the reorganisation of the British industry were settled, there was every reason to apprehend that new furnaces and new sheet bar mills would be established in the United Kingdom, and that as soon as they came into operation Indian iron and steel would become

subject to duty under the Import Duties Act. For this reason the question could not be postponed, and it became a vital matter to ascertain without delay on what condition the free entry of Indian iron and steel into the United Kingdom would be continued. If the opportunity were allowed to slip, it would never recur.

74. Up to this point we have considered only the Indian side of the case, but clearly His Majesty's Government in the United Kingdom had to consider primarily the interests of their own industry. For very many years British steel has held a predominant position in the Indian market, but since the War developments of two kinds have led to a considerable displacement of British steel in India. The protection accorded to the Indian industry in 1924 has, in the first place, brought about a large and permanent increase in the quantity of steel produced in India; and, in the second place, intensified competition from the Continent, and particularly from Belgium, has resulted in the displacement of considerable quantities of British steel by Continental steel. It was natural, therefore, that the British Delegation should make it one of their primary objectives to secure, if possible in any Trade Agreement with India provisions which would bring about enlarged sales of British steel in India. The right of India to protect her own industry to the extent found to be necessary was not in any way disputed, but the desirability of establishing more favourable conditions for British steel in its competition with Continental steel was strongly pressed.

75. So far as the unprotected classes of iron and steel were concerned, we had no difficulty in agreeing to a preference so long as the conditions of the Agreement were sufficiently flexible to permit of the addition from time to time of new classes of steel to the protected list. But when the protected classes of steel came under consideration, the difficulties were at once seen to be of the gravest kind. Some classes of iron and steel, such as rails and galvanised sheet, are subject to uniform duties irrespective of origin, and others, such as bars, black sheet and structural sections, are subject to differential duties, a lower rate of duty being imposed on steel made in the United Kingdom and a higher rate on steel made elsewhere. In neither case were we prepared to interfere with the rates of duty fixed after full investigation by the Tariff Board. To concede a preference by reducing these rates to a lower figure in favour of British steel would impair the protection intended by the Legislature to be afforded to the Indian industry, and to raise the duties on foreign steel to a higher point than was required in India's own interest would have been a grave departure from the fundamental principle of the policy of Discriminating Protection. It would have meant that though, when an Indian industry was in question, the consumer ought not to be taxed beyond the extent necessary to give the protection needed, this could be done without objection when a British industry desired to be safeguarded against foreign competition. It is true that the protective duties on iron and steel have been increased by the surcharge of 25 per cent. imposed by the Finance (Supplementary and Extending) Act, 1931, and it might have seemed that a way out could be found by ceasing to levy the surcharge on British steel. But apart from the fact that the revenue arising from the surcharge was urgently needed to meet a financial emergency of the gravest kind, a temporary surcharge voted by the Legislature for a period of eighteen months only could not form the basis for a preference in a Trade Agreement. It would have meant that the surcharge must be retained on steel made elsewhere than in the United Kingdom, after it had ceased to be needed for revenue purposes.

76. Our considered view was that the rates of duty fixed after full investigation by the Tariff Board must be left to their operation for the statutory period, and could only be revised in connection with the Board's enquiry in 1933. In our discussions with the British Delegation we could point to the fact that in certain classes of steel the United Kingdom already received what was in effect, though not in intention, a preference,

and that the differences in the rates of duty had in fact led to the importation of a higher percentage of British steel. But it became evident that, if free entry for Indian iron and steel into the United Kingdom was to be retained, some thing more was needed. After a thorough examination of all the facts, we came to the conclusion that the only class of steel in respect of which an arrangement satisfactory to both parties could be reached was galvanised sheet.

77. The imports of galvanised sheet into India for the last eleven years are shown in Table V. It will be seen that up to the time of the Tariff Board's enquiry in 1926 the imports from countries other than the United Kingdom were negligible, and consequently when the Board considered the rate of duty that should be imposed they took into account only the competition of British sheet. The rate of duty fixed in the Steel Industry (Protection) Act, 1927, was Rs. 30 a ton, and this rate of duty was applicable uniformly, irrespective of the country of origin. Two years after the passing of the Act galvanised sheet began to be imported from Belgium on an appreciable scale, and these imports steadily increased, accompanied by a continuous reduction in the price, with the result that at the end of 1930 an additional duty amounting to Rs. 37 a ton was imposed by the Government of India under Section 3(4) of the Indian Tariff Act, 1894, after an enquiry by the Tariff Board. This duty still remains in force and is applicable to all galvanised sheet whatever the country of origin.

TABLE V.

IMPORTS OF GALVANISED SHEET INTO INDIA FROM 1921-22 TO 1931-32.

(000 tons.)

Year.	Imports from— United Kingdom.	Belgium.	Other countries.	Total.
1921-22	83	..	5	88
1922-23	114	..	8	122
1923-24	159	..	6	165
1924-25	205	1	3	209
1925-26	272	2	9	283
1926-27	249	10	16	275
1927-28	298	22	12	332
1928-29	286	32	8	326
1929-30	200	51	7	258
1930-31	90	48	9	147
1931-32	55	27	2	84

78. The importance of the trade in galvanised sheet to the British Iron and Steel Industry may be gauged from the fact that in 1927-28 the value of galvanised sheet accounted for half the value of the total imports of British steel into India, and even in 1931-32 it was still 30 per cent. of the value, but between these two years the value of the imports of British galvanised sheet had fallen from Rs. 7·2 crores to Rs. 1·03 crores. It will be evident from these figures how gravely the new competition from Belgium had affected the British industry, more especially because it became intense at a time when demand was declining and prices were falling. Here, if anywhere, measures calculated to bring relief—provided

always they were consistent with the interest of India—were most likely to be of value. But conversely, of all the rolled steel products on which protective duties have been imposed galvanised sheet is the one where it is easiest to make concessions without detriment to the interests of the Indian industry. When allowance is made for what is sold as black sheet, the present capacity of the Jamshedpur Works is about 45,000 tons of galvanised sheet a year. The Tata Iron and Steel Company have in hand a scheme for the erection of additional equipment which will be carried out in two stages. The first stage will increase their output to 65,000 tons a year, and should come into operation in the middle of the year 1933-34, with a consequent increase in output of 10,000 tons in that year. The second stage will not affect the output for another year at least, but will eventually increase it to 92,000 tons. The present output is only 12 per cent. of the consumption in 1927-28 (the record year), and 40 per cent of the very much reduced consumption in 1931-32. Any marked improvement in trade would be likely to raise the demand to at least 180,000 tons a year, and in that case, even when the new equipment at Jamshedpur is in full operation, half the consumption would still have to be met from outside India.

79. The duty on galvanised sheet imposed by the Steel Industry (Protection) Act, 1927, was Rs. 30 a ton; the additional duty of Rs. 37 a ton imposed by Notification in December 1930 raised it to Rs. 67 a ton, and the surcharge imposed by the Finance (Supplementary and Extending) Act, 1931, raised it once more to Rs. 83-12-0 a ton. Since the end of 1930 the price of galvanised sheet (as shown in the trade papers) has fallen by £2-12-6 a ton from £11-12-6 to £9 a ton, and the surcharge has not been sufficient to compensate for this further fall in price. In effect, therefore, Rs. 83-12-0 must be regarded as the duty which gives adequate protection to the Indian industry against competition from Continental sheet. It appeared to us that the two rates of duty (1) Rs. 30 a ton, the basic duty fixed on the recommendation of the Tariff Board in 1927, and (2) Rs. 83-12-0 a ton, the existing duty, must be accepted as the limits which must not be transgressed in any adjustment of duties which might be made. But it also appeared to us that, within these limits, it should be possible so to fix the rates of duty as to meet the reasonable requirements of both the British and the Indian industries.

80. The scheme which will be embodied in a Supplementary Agreement* between His Majesty's Government in the United Kingdom and the Government of India provides that, up to the 31st March 1934 (when the duties fixed after the statutory enquiry by the Tariff Board will become operative), the duties on galvanised sheet shall be as follows :—

(1) Sheet made in the United Kingdom from Indian sheet bar..	Rs. 30 a ton.
(2) Sheet made in the United Kingdom from other sheet bar ..	Rs. 53 a ton.
(3) Sheet not made in the United Kingdom	Rs. 83-12-0 a ton.

The basic figures underlying this scheme are as follows. The bed rock price of Belgian galvanised sheet is assumed to be £8-10-0 a ton f. o. b. Antwerp as against £8-12-6 a ton, the lowest price actually quoted according to our information. The necessary additions on account of sea freight, landing charges and duty increase this sum to Rs. 215 a ton duty paid at an Indian port. The price assumed for galvanised sheet made in the United Kingdom from sheet bar, other than Indian sheet bar, is £10-10-0 a ton f. o. b. We are satisfied that this is the lowest price which will give the British sheet manufacturer a reasonable return, for when all costs have been met the sum left to cover depreciation and profit is only 12*s*. 6*d*. a ton. With the additions necessary for freight, landing charges and duty, this figure also means a duty paid price of Rs. 215 a ton in India, the freight from a United Kingdom port being taken as on the average 5*s*. a ton above the freight from Antwerp. The difference of Rs. 30-12-0 a ton between the duty on British sheet not made from Indian bar and

* The Supplementary Agreement is embodied in an exchange of letters which are printed as an Annexure to the Report. (*Vide* pages 49-50 *post*).

sheet made elsewhere, is the difference between the lowest price which the Continental manufacturer has yet quoted and the lowest price which the British manufacturer can reasonably accept. The object of this difference in the duties is to enable the British manufacturer to obtain a price which does not involve an actual loss. It remains to consider the further difference of Rs. 23 a ton between the duty proposed on sheet bar made in the United Kingdom from Indian sheet bar and on sheet made from other bar.

81. If the special arrangements connected with the duties on galvanised sheet were to be acceptable to India, it was indispensable that they should furnish reasonable security that any increase in the sale of British galvanised sheet in India should be accompanied by an equivalent increase in the sales of Indian sheet bar in the United Kingdom. If the duties were so adjusted that the British manufacturer had no inducement to use Indian sheet bar when making sheet for the Indian market, it would fail to achieve one of its primary objects, namely, the securing of a fresh outlet for Indian steel. It was impossible to obtain the necessary assurances on this point at Ottawa, and it was on this account that the final settlement had to be postponed until further discussions had taken place in London between the representatives of the British industry and of the Indian industry. As a result of these discussions we have received assurances that the representatives of both industries are satisfied that, with a difference of Rs. 23 a ton between the duty on sheet made in the United Kingdom from Indian sheet bar, and sheet made from other bar, it will be possible to do business at prices satisfactory to both industries, so that the extended use of Indian sheet bar is assured. That being so, we are satisfied that the scheme is one which we can recommend for adoption by the Indian Government and Legislature.

82. In the scheme which has been outlined there are three dangers against which provision must be made if the scheme is to work successfully. These are :—

(1) Price cutting by Continental manufacturers below the c. i. f. price of Rs. 128-4-0* a ton which we have taken as basic.
(2) Price cutting by British manufacturers below the c. i. f. price of Rs. 159* a ton which has been assumed as reasonable.
(3) A combination between the British and Indian manufacturers to raise the duty-paid price above Rs. 215 a ton at a port in India.

83. To meet the first of these dangers the Government of India must have power to impose an additional duty on foreign sheet should the need arise. When conditions are as disturbed as they are in the world to-day, it is impossible to be certain when a level of prices has been reached at which further price cutting becomes impossible It is indeed an indispensable element in the scheme, as agreed between the British Delegation and ourselves, not only that the Government of India should possess the power, but that it should be promptly and effectively exercised. The experience of the last two or three years has shown that the price cutting takes place not by large sums but by successive instalments of about 2*s*. 6*d*. a ton at a time. The reduction is so small that it is difficult to make out a case for an additional duty, but the cumulative effect of a succession of such reductions is not small. Meanwhile, pending the imposition of an additional duty, the British sheet manufacturer would have the choice of two alternatives. He could maintain his price, and in that case he would probably lose the greater part of the business, or he could follow the Continental price downwards, as he has been compelled to do in the past, and in that case he would create evidence against himself that an additional duty was needed, not only on Continental sheet but also on British sheet. It is for this reason that we regard it as indispensable that, as soon as the Government of India are satisfied that the price has been cut, the additional duty should be imposed promptly without the delay inevitably occasioned by a Tariff Board enquiry. The amount of the

* These prices are arrived at by deducting the duties on British and other sheet respectively, *plus* an allowance of Rs. 3 a ton for landing charges, from Rs. 215, the duty-paid price at an Indian port.

additional duty need not be limited to the amount of the price reduction, but should be of such an amount as to make clear the intention of the Government of India to make the agreement effective. The circumstances of the case are entirely special and some of the considerations which might ordinarily be relevant do not apply.

84. The other two dangers to which we have referred are not in our view probable contingencies, but it is desirable that the interests both of the Indian sheet maker and of the Indian consumer should be safeguarded. The protection intended to be given to the former would be impaired by price cutting from any quarter, and the interests of the latter would be prejudiced by any combination to raise prices unnecessarily. Circumstances might arise which necessitated some increase in price, *e.g.*, a rise in the price of spelter or in the cost of sea freight, but the Government of India should have it in their power to check any price increase for which adequate justification does not exist. This point will be met if the Government of India take power to reduce by notification the duty on sheet not made in the United Kingdom as well as to increase it by imposing an additional duty. The other point will be safeguarded if power is also taken to impose an additional duty on British sheet in the event of price cutting. Special arrangements will clearly be necessary in order that the course of prices may be kept under constant observation.

85. The Supplementary Agreement regarding Iron and Steel will remain in force until the end of March 1934, when the duties on galvanised sheet will be replaced by such duties as may be fixed after enquiry by the Tariff Board. We recognise that the scheme embodied in the Agreement contains novel features which might make smooth working difficult if it were intended that the duties should remain in force for any long period, but we believe that for the comparatively short period indicated above, there is no reason why it should not be worked successfully. Special arrangements, however, will be necessary for the certification of the sheet to be made in the United Kingdom from Indian sheet bar. We are not directly concerned with the agreements into which the manufacturers in both countries may enter under the operation of the duties, but we understand it is probable that arrangements will be made by which the sheet bar exported from India will remain the property of the Tata Iron and Steel Company, and the sheet made from such bar will be reconsigned to India for disposal by them. If this should occur the working of the system will be greatly simplified.

86. We have no doubt that the Supplementary Agreement about Iron and Steel is to the advantage of both countries. On the British side the sheet manufacturer is enabled to sell his sheet in the Indian market on much more favourable terms and at a price which gives him a reasonable return. Unless this could be arranged agreement was impossible. On the Indian side we have already explained the extreme importance of the continuance of free entry into the United Kingdom for Indian iron and steel and of the new outlet for Indian steel which is created by the lower duty on sheet made from Indian sheet bar. Nor is the protection afforded to the Indian industry in any way impaired by the lower duty on British sheet, for the Government of India will retain full power to impose additional duties should the need arise. But the agreement is of equal importance for another reason In every steel-producing country in the world the capacity of the steel plants is far in excess of the present demand and it is this which has brought about the present cut-throat prices. If we had been unable to reach agreement the almost inevitable result must have been the erection of new iron and steel furnaces in the United Kingdom and the accelerated establishment of additional galvanised sheet plant in India, thereby aggravating the conditions from which the world is suffering. We believe that much could be done through the method of industrial co-operation to alleviate these conditions rather than to make them worse, and we are glad that it has proved possible to give a concrete example of what can be accomplished in the special arrangement which we have described in this chapter.

CHAPTER VII.

Promotion of Trade within the Commonwealth.

87. The First Committee, on Promotion of Trade within the Commonwealth, was chiefly concerned with the examination of questions of principal and policy bearing directly on the primary task which faced the various Delegations to the Conference, namely, the negotiation of trade agreements based on reciprocal tariff preferences and directed to the encouragement and extension of mutual trade. It was urged by one of the participating Governments that the commercial advantages anticipated from the reciprocal trade agreements should be protected against unfair trade practices on the part of countries outside the Empire. The reason behind this plea was that it would be of no practical use for two Empire countries to negotiate an exchange of preferences if the value of theses preferences is wiped out by radical price cuttings by foreign countries. Such a step on the part of foreign countries may neutralise the margin of preference granted or received. The Conference as such came to no final decision on this important question, but its attitude in the matter is best illustrated by reference to article 21 of the United Kingdom-Canadian agreement:—

> "This Agreement is made on the express condition that, if either Government is satisfied that any preferences hereby granted in respect of any particular class of commodities are likely to be frustrated in whole or in part by reason of the creation or maintenance, directly or indirectly, of prices for such class of commodities through State action on the part of any foreign country, that Government hereby declared that it will exercise the powers which it now has, or will hereafter take, to prohibit, the entry from such foreign country, directly or indirectly of such commodities into its country for such time as may be necessary to make effective and to maintain the preferences hereby granted by it."

88. Though we recognised the force of this argument we did not commit ourselves or the Government of India to any definite steps in this direction. We ourselves anticipated that in the case of certain Indian exports like manganese ore, the Indian commodity may have to face very severe competition in the United Kingdom market against foreign sources of supply, and in the course of our negotiations with the British Government we reserved the liberty to raise the question with reference to particular commodities if and when such a situation arose.

89. A second point, closely related to the first, to which considerable attention was given in the course of the discussion, was the question of anti-dumping duties. The difficulties arising out of dumping were by no means confined to foreign countries, but might as easily arise within the Commonwealth. In fact this question assumed some importance in the Conference as a result of complaints by some parts of the Empire against the anti-dumping measures adopted by one of the Empire countries. While it was recognised that anti-dumping measures are sometimes necessary as an effective retort to export subsidies or as a safeguard against cheap imports based on depreciated exchange, the Conference expressed its views in the following resolution:—

> "This Conference, recognising that export bounties and exchange depreciation adversely affect the value of tariff preferences within the Commonwealth, expresses the hope that with a rise in the level of commodity prices and with stabilised exchanges such bounties and the special duties which have been adopted as a means of adjusting the situation so created, may be withdrawn."

90. In the case of certain of the protected industries in India, the Act under which the duty is imposed contains provisions which empower the executive Government to impose additional offsetting duties when the

foreign commodities are sold at a price which renders nugatory the protection granted to the Indian industries. This provision seems to us to be the most logical safeguard against the dangers of dumping. The Indian system does not, however, contain any provision for anti-dumping measures in the case of industries which are not protected.

91. A third question discussed in Committee I related to the condition under which Empire goods should qualify for tariff preferences as between Empire countries which had agreed to exchange preferences, and the measures which might be taken to bring about a greater degree of uniformity in the Regulations in force in the various countries. Two questions in particular emerged, of which the first was the percentage of Empire content to be required. There are wide variations between the Regulations in force in the different parts of the Commonwealth, but it is unnecessary for us to attempt to describe them, for they are fully set forth in a recent Report of the Imperial Economic Committee. It is clear that exporters in all the Empire countries must be handicapped if the percentage varies widely and if the evidence required to substantiate a claim is different in each country. Where the exports of a country consist mainly of the natural products of the soil or the subsoil, the matter is comparatively simple, and all that is required is a suitable certificate of origin to prove that they are the produce of the Empire country from which they have been exported. But manufactured goods present more complex problems, particularly if they are composite goods, and contain several ingredients some of which are not available in the country of manufacture and must be imported. Some degree of uniformity in the conditions which qualify for preference and the procedure for establishing claims is clearly desirable, and this was generally recognised, but it proved impossible to reach unanimity as to the percentage to be fixed. The view we expressed on behalf of India was that the normal percentage should be reasonably high, such as the 50 per cent. in force in Canada, but with variations upwards or downwards to meet special cases. But there were also advocates of lower percentages, such as 25 and 33, and the advantages of a mixed system by which the percentage is as low as 25 on certain classes of goods and as high as 75 on others, was also urged.

92. The second important question which was raised was whether in calculating the Empire content the cost incurred in every Empire country in respect of labour and material should be taken into account or only the costs incurred in the country with which preferential agreements have been made. India is a large exporter of raw materials, and it is clearly in her interests that all Empire content should be taken into account, for the indirect benefit to her export trade might be considerable. This was the view we expressed in the Conference, but on this point also it was not possible to reach unanimity. Eventually the following resolution was adopted :—

> "That each of the Governments of the Commonwealth should investigate, as rapidly as possible, the standard of Empire Content which should be required by them for the import under preferential rates of the different classes of goods, bearing in mind the following principles :—
>
> (*a*) That though it must rest with each Government to decide what standard it will require, a greater degree of uniformity throughout the Commonwealth is desirable.
>
> (*b*) The standard required should not be such as to defeat or frustrate the intention of the preferential rate of duty concerned to any class of goods."

93. It does not, we think, fall within our province to advise the Government of India on these questions. But until the investigation contemplated in the Resolution has been carried out, and the Empire Governments have exchanged views on the subject, it would be inadvisable, we think, that fresh complications should be introduced, and it is for this reason we suggested in Chapter III that the regulation to be made in India, should be

based on those already adopted by other parts of the Empire with practical experience of the subject.

94. A fourth question was raised at early sittings of the Conference, the point being whether a series of bilateral trade agreements should be negotiated, or whether, if the negotiations proved generally successful, they would be incorporated into a single multilateral agreement. No report was submitted to the Conference by Committee I on this subject and the final result was a series of bilateral agreements.

95. The final, and from many points of view the most important, question examined by Committee I was that of the ultimate objective of the agreements. Uniformity of scope and form was neither practicable nor indeed desirable. What was important was that all agreements should be so framed as to express, however different might be their terms, one single purpose common to all, and that that purpose should be kept constantly in view throughout the negotiations It was recognised by all Delegations present at the Conference that excessively high tariffs were in large part responsible for the prevailing trade depression. A reduction of high tariffs by Empire Governments in each other's favour would be a beginning towards better things. But it could only be a beginning, and it would fail of its true objective if it did not lead to similar reductions on the part of other Governments throughout the world. When all negotiations were finally completed and it was realised how many agreements had been secured, the following Resolution was adopted to express the hope that the agreements were merely preliminary steps towards increasing trade not only within the Empire but also throughout the world: —

"The nations of the British Commonwealth having entered into certain Agreements with one another for the extensions of mutual trade by means of reciprocal preferential tariffs, this Conference takes note of these Agreements and records its conviction:

"That by the lowering or removal of barriers among themselves provided for in these Agreements the flow of trade between the various countries of the Empire will be facilitated, and that by the consequent increase of purchasing power of their peoples the trade of the world will also be stimulated and increased:

"Further that this Conference regards the conclusion of these Agreements as a step forward which should in future lead to further progress in the same direction and which will utilise protective duties to ensure that the resources and industries of the Empire are developed on sound economic lines.

"The Agreements referred to are annexed hereto and the Conference commends them to the Governments of the several parts of the Empire."

96. We would like to draw particular attention to the character of this Resolution as compared with similar Resolutions passed in previous Imperial Economic Conferences. The Resolutions of previous Conferences merely aimed at establishing the principle of Imperial preference as an end in itself irrespective of its repercussions on the world at large The present Resolution marks a great step forward from the position taken at previous Conferences. It clearly recognises the economic unity of the world. It recognises that the prosperity of the Commonwealth and its component parts is dependent on the recovery and increase of world trade. It is the hope of those who took part in the Conference that the reciprocal preferential regime established by the Conference would, by clearing up the channels of inter-Empire trade in the first instance, increase the purchasing power of the peoples of the British Commonwealth, and thus usher in an era of world trade revival. It is in this spirit that the above Resolution was conceived and adopted by the Conference.

97. The major portion of the time spent at Ottawa was taken up by the negotiations with His Majesty's Government in the United Kingdom and with the general work of the Conference. But we also carried on discussions with the Delegations of the various Dominions as regards the possibility of developing our trade with them by means of preferences. We could not, owing to lack of time, bring any of these discussions to the stage at which agreements could be drafted, and the instructions of the Government of India obtained. But in each case memoranda of the views exchanged were prepared which would serve as the basis of further negotiations between the Government of India and the Governments of the Dominions concerned. It was clearly desirable that these discussions should take place, for there was a danger that India's position in the Dominion markets might be affected unfavourably. India at present enjoys the benefit of the British preferential tariff in Canada, New Zealand the Irish Free State and Southern Rhodesia, and in each case the preference given was the spontaneous act of the Dominion Government concerned, nothing being asked in return. The whole situation has, however, been radically altered by the Ottawa Conference. Inter-Imperial preference has now been placed on a basis of reciprocity, and India cannot expect that those Dominions which at present accord preferences to her exports will continue to do so if she finds herself unable to reciprocate. The question whether in these circumstances India should enter into trade agreements with the Dominions will therefore call for decision at an early date.

98. We have now completed our survey of the Agreement and of those matters discussed at Ottawa which have a direct bearing on the Promotion of Trade within the British Commonwealth of Nations But before we conclude this chapter it is desirable that we should review the Agreement as a whole, and there are certain facts which must be brought out clearly. The value of the imports from the United Kingdom into India in 1929 30 which, if the Agreement had been in force in that year, would have received the benefit of the preferences granted by India is £17·4 million. Similarly the value of the imports from India into the United Kingdom which would have received the preferences granted by the United Kingdom if the Agreement had been in force in that year is £41·8 million. The value of the imports from the United Kingdom which would actually benefit by the preferences is somewhat overstated, partly because they consist of manufactured goods some of which might not comply with the regulations regarding Empire content, but mainly because the figures in the Trade Returns include in the imports from the United Kingdom commodities which are not in fact the produce or manufacture of that country. The figure given for the value of the imports into the United Kingdom from India is not affected by these factors to anything like the same extent. The entrepot trade of India is relatively small, and the great bulk of her exports consists of raw produce which is 100 per cent. Indian, while her manufactured exports are made for the most part of indigenous materials. Again, under the Agreement a very large proportion of India's exports to the United Kingdom will be admitted free of duty, whereas India has incurred no obligation to admit free of duty any of her imports from the United Kingdom. Finally, the preferences granted by India are at the rate of 7½ per cent. on motor vehicles, and at the rate of 10 per cent. on the rest of the commodities specified in Schedules F and G. The preferences granted by the United Kingdom are in no case at a lower rate than 10 per cent., are in some cases 20 per cent. or 33⅓ per cent., while some of the preferences at specific rates are even higher.

99. We have given prominence to these facts, not in order to show that the bargain is altogether one-sided, or that India is likely to profit from the Agreement to a far greater extent than the United Kingdom. That is not our view. But it was necessary to state the facts clearly in order to bring out another aspect of the case which has still to be considered. In addition to the preferences granted by the Agreement the United Kingdom has also the advantage of differential duties under the Steel Industry (Protection) Act, 1927, on imports which in 1929-30 were valued at £1·6

million, the differences in the duties being equivalent to preferences of from 14 to 22 per cent. according to the prices prevailing in 1931-32. Further, under the Cotton Industry (Protection) Act, 1930, she has the advantage of a difference in the rates of duty applicable to cotton piecegoods, this being 5 per cent. originally and 6¼ per cent.* at present The value of the cotton piecegoods imported into India in 1929-30 was £25 millions, but is now of course much smaller. We cannot emphasise too strongly the fact that the Agreement does not in any way limit India's right to shape her protective policy in accordance with her own conception of her national interests That is a point which for us was fundamental throughout the discussions. But both parties had to take due account of the fact that the policy actually adopted by India was that of Discriminating Protection, and that in the practical application of that policy it had been found that in India's own interests it was desirable to impose lower rates of duty on goods made in the United Kingdom than on goods made elsewhere. India imposed the differential duties because in that way her own interests were best served, and asked nothing in return. But whatever the intention, the result was that the United Kingdom in fact received an advantage, and the fact could not but be present to the minds of both parties while the negotiations were proceeding.

100. It is not for us to surmise what may have been in the mind of the British Delegation. But it is obvious that they might attach considerable weight to the results of the Indian policy of Discriminating Protection, by which certain classes of British goods were allowed to enter India at rates of duty lower than those applicable to similar foreign goods. And this at least may be said. It cannot be assumed that if there had been no differential duties His Majesty's Government in the United Kingdom would have been prepared to enter into the Agreement actually concluded, or that they would be prepared to continue the Agreement indefinitely if the differential duties were abolished. With the underlying motives of India's tariff policy they are not directly concerned, but their practical results concern them closely. From the Indian side also the differential duties could not be ignored. If an Agreement was to be made, the existence of the differential duties was one of the factors to be taken into account in striking a balance. India imposed these duties to serve her own ends, and not to benefit the United Kingdom, but there was no reason why, when the exchange of preferences came under discussion, the advantages the United Kingdom derived from these duties should not be fully weighed. On the contrary in presenting India's case, it was part of our task to make full use of this aspect of India's tariff policy and to make sure that its importance was realised. We believe that we were not unsuccessful, and in turning from this subject we desire only to add that it should not be forgotten that, except by way of a Trade Agreement, there was no way by which India could obtain a return for the advantages conferred by the differential duties Their existence enabled us to conclude an Agreement on much more favourable terms than would otherwise have been possible.

101. If the value of the United Kingdom goods entering India subject to the differential duties is added to the value of the goods entitled to preferences under the Agreement, and the total is compared with the value of the Indian goods entitled to preference, the difference is not great, and the balance appears to be fairly even. But this is a crude test, and the fairness of an Agreement cannot with any exactness be measured in this way. We may point out that the value of the Indian goods receiving preference might have been higher by £8 million if we had abstained from asking that the goods specified in Schedule D should be added to the Free List. In that case, while the apparent value of the preferences would have been increased, no actual advantage to India's export trade would have accrued, but on the contrary there would have been some disadvantage.

* A notification of the Government of India, dated the 30th August 1932, increased the *ad valorem* rates of duty on cotton piecegoods not of British manufacture from 31¼ to 50 per cent. The effect was to increase the difference in favour of British manufactures to 25 per cent., but the increased duty is to remain in force only to the 31st March 1933.

The only test by which the value of a Trade Agreement can be judged is the extent to which it results in an increase in the export trade of the countries concerned or in the retention of trade which would otherwise have been diminished or altogether lost. When this test is applied we have not the least doubt that the Agreement is advantageous to India, not in the sense that what she gains is greater than what she gives, but in the sense that what she has gained are solid and substantial advantages and what she has given can be given without detriment to any national interest. We have already pointed out in Chapter II how gravely, in the absence of agreement, India's position in the United Kingdom markets might have been prejudiced. That position has been amply secured, while in certain directions fresh openings have been created for the extension and development of her trade. The Agreement ensures that in all parts of the Colonial Empire Indian exports will not be placed at a disadvantage as compared with any other part of the Empire, but will be able to compete on equal terms with all.

102. Certain classes of Indian goods, such as tea, coffee and tobacco, will continue to pay duty on entry into the United Kingdom, but a duty substantially lower than the duty applicable to similar foreign goods, the remainder of India's exports will be admitted free of duty, and of these much the greater proportion will receive a substantial preference. The free entry of iron and steel goods into the United Kingdom during a period when crucial decisions affecting the whole future of the industry must be taken has been secured, and an opportunity has been created for industrial co-operation between the iron and steel industries of the two countries which we believe has great possibilities in the future. On the other side of the balance sheet the protection afforded to Indian industries has not been in any way impaired, and India retains complete freedom to shape her tariff policy in the manner she thinks best. The provision in the Agreement which makes it subject to denunciation at six months' notice preserves complete liberty to a new Government in India to make its own decisions, and the provision for variation removes any fear that the Agreement might operate as a bar to India's industrial progress. Throughout the negotiations we have striven to secure for India every advantage which the circumstances in which we were placed enabled us to claim, but without making any sacrifices where India's interests were vitally concerned. We do not think we have failed. And it is our earnest belief and hope that the Agreement will be of benefit to both countries and will serve to promote that harmonious co-operation on which the future of both so largely depends.

CHAPTER VIII.

Other matters discussed at the Conference.

103. Throughout the period of the Conference the various Delegations were naturally much preoccupied with the negotiation of trade agreements and their attention tended to concentrate on these negotiations rather than on the discussion of the various items of the Conference Agenda. We have in the previous chapter dealt with the items of the agenda which were referred to Committee I. The items referred to Committee IV are discussed in the Report of Sir Henry Strakosch and Sir George Schuster, which forms an appendix to our Report. In this chapter we propose to deal with the work of Committees II, III and V.

104. Committee II examined many important aspects of Customs administration, such as drawback, anti-dumping duties, protective duties, the basis of valuation of goods for tariff purposes, the right of appeal, marks of origin, etc. This examination resulted in a valuable exchange of information between the Delegations. The Conference, however, contented itself with passing a resolution to the effect "that in regard to Customs Administration the aims to be kept in view should be:—

(1) The avoidance of uncertainty as to the amount of duty which would be payable on the arrival of goods in the importing country;

(2) the reduction of friction and delay to a minimum;

(3) the provision of facilities for the expenditious and effective settlement of disputes relating to all matters affecting the application of the Customs Tariff".

It was also agreed that any measures which Customs Administrations might take to safeguard themselves against evasion should be consistent with these principles.

105. On the recommendation of Committee III the Conference adopted the following report on the subject of Commercial Relations with Foreign Countries:—

"The Committee considered two broad groups of questions affecting the commercial relations of the several members of the Commonwealth with foreign countries.

"In the first place, the Committee discussed the general question of the relationship between inter-Commonwealth preferences and the most-favoured-nation clause in commercial treaties with foreign powers. Each Government will determine its particular policy in dealing with this matter, but representatives of the various Governments on the Committee stated that it was their policy that no treaty obligations into which they might enter in the future should be allowed to interfere with any mutual preferences which Governments of the Commonwealth might decide to accord to each other and that they would free themselves from existing treaties, if any, which might so interfere. They would, in fact, take all the steps necessary to implement and safeguard whatever preferences might be so granted.

"In the second place, attention was drawn to recent tendencies in foreign countries to conclude regional agreements between themselves for the mutual accord of preferences which were designed as being exclusive, and not to be extended to countries which were not parties to, or did not adhere to, the agreements. On this point there was a general agreement that foreign countries which had existing treaty obligations to grant most-favoured-nation treatment to the products of particular parts of the Commonwealth could not be allowed

to override such obligations by regional agreements of the character in question. Particular reference was made in this connection to the question of the Danubian States in regard to which preferential treatment was in contemplation for the cereal exports of the States concerned, exports which constitute a substantial proportion of the world's exports of the cereals in question. The Committee were, however, informed that in the discussion which took place at Lausanne on the matter, the rights of third countries had, at the instance of the United Kingdom, been expressly reserved.

"The Committee recognised that the fact that rights are accorded by most-favoured-nation treatment does not preclude a foreign country from seeking the consent of the various Governments of the British Commonwealth to the waiver of their rights in particular cases, and that these Governments must be guided by consideration of their individual interests in deciding whether or not to meet the wishes of the foreign country concerned, so long, however, as the general principle that rights of this kind cannot be arbitrarily withdrawn is fully and carefully preserved.

"The Committee would, however, recommend that where two or more Commonwealth Governments share a common interest in any proposal for the waiver of particular treaty rights, they should consult together with a view to arriving, in so far as possible, at a common policy".

106. The above Resolution is important inasmuch as it draws a clear distinction between foreign treaties and inter-Empire trade agreements, and aims at preserving inter-Empire preferences from any interference arising from existing or future foreign treaty obligations. It further encourages joint consultation and action by any two or more Governments of the Commonwealth whose interests may be threatened by regional agreements between foreign countries tending to override existing agreements for the exchange of most-favoured-nation treatment.

107. The Committee on Methods of Economic Co-operation (Committee V), of which Sir Atul Chatterjee was Chairman, had under consideration many questions of interest and importance to India Foremost among such questions was that of the Grading and Standards of Agricultural Products, which was examined by a Sub-committee under the chairmanship of Mr. A. W. Street, one of the official advisers to the United Kingdom Delegation.

108. Mr. B. C. Burt represented India on this Sub-committee. The Imperial Conference 1930 had drawn attention to the assistance which might be rendered to Empire trade in certain agricultural commodities by reasonable uniformity of standards and grades, and at Ottawa the desirability of achieving common and accepted standards at least for minimum grades of primary products was emphasised. In its report the Sub-committee dwelt on the importance of developing national standards for agricultural produce and of the extreme desirability of securing common Empire standards where such are possible; it pointed out that 'many of the countries of the British Commonwealth of Nations have adopted national standards of quality and packing, which, if harmonised both as to nomenclature and definition, would greatly facilitate trading, encourage good will and increase consumption'. The Sub-committee therefore recommended that 'the countries comprising the British Commonwealth of Nations should work towards the adoption of uniform standards for those agricultural products which experience has shown most readily lend themselves to standardisation'. Both on account of the limited time available and because several delegations were without marketing experts, it was impossible for the Sub-committee to discuss actual standards for individual commodities, but they recommended that, in order to facilitate the unification of Commonwealth grade standards, arrangements should be made for an exchange of memoranda

describing in detail the grade standards in existence in the different countries of the British Commonwealth. A suggestion was made, during the course of the discussion in the Sub-committee, that the United Kingdom Government might well undertake legislation requiring *all* wholesale trading in suitable commodities, for example poultry and eggs, to be conducted on the basis of Commonwealth standards. The Sub-committee recognised that this proposal involved important questions of policy and administration, and that the suggestion had an international significance inasmuch as the standards adopted would also apply to foreign produce, and they appreciated the fact that the fixing of standards for staple commodities like wheat and cotton is a different matter from the provision of standards for poultry and dairy produce; they also realised that the desired objective might be reached by other routes not involving legislation Nevertheless they considered that the suggestion should be further explored. Whether it be enforced by legislation or secured by other means, the adoption of Commonwealth standards for agricultural products as the basis of wholesale trading in the United Kingdom would mark the adoption of a new principle of the highest importance, and any extension of such standard, to staple commodities might have far-reaching effects on Indian trade.

109. The Delegation venture to draw the special attention of the Government of India to the report of this Sub-committee. The importance of better grading standards and more orderly marketing of agricultural produce was clearly stated by the Royal Commission on Agriculture and more recently by the Indian Banking Enquiry Committee. As now raised the question has a dual aspect. In the first place, other countries of the British Commonwealth have found that the proper grading of agricultural produce and the adoption of national grade standards have improved their position in the United Kingdom market and helped their export trade as well as improving the internal trade in home-grown commodities. Clearly India can ill afford to neglect so valuable a means of improving her competing power in world markets. In regard to one commodity only, *viz.*, cotton, do satisfactory national grade standards exist for Indian produce at present. Secondly, there is every prospect that, if the agreement be reached on Empire standards for certain commodities, these standards will become very important in international trade generally If India fails to take full advantage of the opportunity now presented for consultation with other countries of the Commonwealth she may find later that standards not entirely suitable to her own requirements have become firmly established. It is obvious that Empire standards for wheat and barley, for example, which took no account of certain special features of the Indian export trade, might fail to meet Indian requirements, and might place Indian produce at a disadvantage in world markets. There are other instances, *e.g.*, hemp, where the products of other Empire countries, though not identical with the Indian product, and thus only competing indirectly, still have an advantage over the Indian product due to their better grading.

110. The question of Industrial Standardisation had been under discussion at the Imperial Conference of 1930, and a Sub-committee was constituted by the Ottawa Conference to examine further the same question, with Dr. H. M. Tory (Canada) as its Chairman. India was represented on this Sub-committee by Sir Samuel Smyth. After examining and recording the progress made since 1930 with industrial standardisation in various parts of the Commonwealth, the Sub-committee investigated the scope for further standardisation in steel, timber, industrial chemicals and agricultural implements and machinery. It recommended that the national standardising bodies "be invited to give immediate attention to the subject of the co-ordination of steel specifications throughout the Empire, to include practices as well as materials"; that committees be appointed in the Dominions and India for the purpose of establishing timber specifications, including practices, and harmonising them with each other to the greatest possible extent; and that committees be similarly formed "for the purpose of establishing national specifications in the chemical industry, in regard to both composition and methods of testing, and that such committees should co-operate as closely as possible with each other in accordance with the usual

procedure". Colour standards and aircraft specifications were also brought under review.

111. Finally, in the domain of agriculture, the Sub-committee expressed itself in favour of the standardisation of containers for agricultural products—a recommendation which received the endorsement of the Sub-committee on the grading and standards of Agricultural Products—and of the standardisation of the parts of agricultural machinery, as distinct from the question of general design. On the recommendation of this Sub-committee the Conference recognised that the following principles would facilitate the co-ordination of the work of national standardisation:—

(*a*) That the specifications should be in accordance with the needs of industry and fulfil a generally recognised want;

(*b*) That the community of interest of producer and consumer should be maintained throughout;

(*c*) That the specifications should be arrived at by general consent;

(*d*) That periodical review and revision should be undertaken to prevent crystalisation and keep the specifications abreast of progress;

(*e*) That full information regarding the initiation of any specification and progress in its preparation should without delay be circulated by the originating body to the corresponding bodies in other parts of the Commonwealth.

The Conference further recommended closer liaison between the central standardising bodies in the different parts of the Commonwealth, and suggested that, with this object in view, these bodies should be authorised to call together, periodically or otherwise, the representatives in their respective countries of the corresponding bodies, or persons otherwise designated for the purpose. The Conference also suggested that "the Trade Commissioners maintained in different parts of the Empire by the several Commonwealth Governments should, as occasion requires, be available to act as liaison officers for this purpose", on the understanding that such consultations should be purely supplementary to, and should not supersede, the method of direct communication already established between the central standardising bodies.

112. These suggestions will doubtless receive the careful and sympathetic consideration of the Government of India and of the various bodies official and unofficial, in India which are qualified to take action upon them. The question of industrial standardisation is one which may not yet have aroused much interest in India, but its importance should be increasingly realised as Indian industries develop and an outlet is sought in foreign markets for Indian manufactures.

113. The Hon'ble J. W. Downie (Southern Rhodesia) was Chairman of the Sub-committee on Industrial co-operation on which Sir Padamji Ginwala represented India. The task of this Sub-committee, like that on Empire Content, was lightened by the fact that the subject entrusted to it for examination had been investigated by the Imperial Economic Committee, whose report was available to the Conference. The possibility of arrangements being made by the industrialists in different countries of the Commonwealth to their mutual advantage, whereby the industries in which they are interested can be jointly rationalised and whereby markets can be shared, was a matter of special concern to Delegations already occupied in negotiating trade agreements with each other. Clearly it would be easier not only to negotiate such agreements, but subsequently to carry them into effect, but they were based on preliminary agreements between the industrialists of the countries concerned. As the Imperial Economic Committee had suggested, industrial activities might "be so directed as to leave to the less industrialised Empire country the market in certain classes of goods and to the more industrialised Empire country or countries the market in more specialised goods"; and again, "in such cases tariffs, where they form a portion of the fiscal policy of a country, could legitimately be used to

safeguard the agreement, provided the Government concerned was satisfied that the agreement was in the economic interests of its own country and was calculated to promote Imperial industrial co-operation".

114. The report of the Imperial Economic Committee has a special interest to a country like India, which attaches great importance to the development of its own industries, based on its own capital, its own labour and its own material resources, and which has embarked on a definitely protective tariff policy with this object in view. The report recognised the need in such countries for progressive industrialisation which in its turn imposes upon the older and more industrialised countries "a continuous changing-over from old staple lines to greater specialisation both in methods of production and in the products themselves". In other words, while industrialisation must increase and expand in the less industrialised countries, the more highly industrialised countries must adapt themselves to ever changing conditons by means of ncreasing specialisation. The Sub-committee, and on their recommendation the Conference, recognised the force of these arguments, and recorded the opinion that it should be the object of any policy of industrial co-operation within the Commonwealth to secure the best division of industrial activities among the several parts of the Commonwealth and the ordered development of each part, with a view to ensuring the maximum efficiency and economy of production and distribution. It urged that the precise nature and extent of the co-operation to be achieved in any particular industry must largely depend upon effective consultation between those engaged, or proposing to engage, in that industry in any two or more parts of the Commonwealth. It finally recommended that industrialists should, through their own responsible representatives, arrange for consultations with a view to industrial co operation, and that the Governments concerned should facilitate and assist such consultations by all available means. The Delegation endorse these recommendations, and suggest that they should receive careful attention both from the Government of India, from Provincial Governments and from Indian States.

115. The report of the Sub-committee on Films and Radio contains useful and practical suggestions. It emphasises the importance of the development of cinematograph film production in all parts of the Commonwealth, and notes that much progress has already been made. With regard to Radio, it recommends "closer liaison between the responsible bodies controlling radio in all parts of the Commonwealth". The question of the development of the cinematograph industry in India was recently the subject of enquiry by a committee whose report was published in 1928. There is evidence to show that this industry has expanded rapidly in India, and that public sentiment is strongly in favour of its further development on national lines. In the absence of instructions on the subject we were careful not to commit ourselves in any discussions regarding Empire quotas.

116. The Sub-committee on Procedure, which had been appointed to work out a programme for the main Committee on the basis of Part A. 3 of the agenda for the Conference (Appendix C), presented no formal report of its own. It did, however, examine the question of Economic Consultation and Co-operation within the Commonwealth, and constituted a special Committee of official experts to prepare a summary of the functions and scope of the various organisations which at present carry out duties falling under this head. Mr. H. A. F. Lindsay represented India on this Committee, whose report is published in the printed proceedings of the Conference, under the title "Report on Existing Machinery for Economic Co-operation". The report describes the constitution and financial resources of eleven existing bodies, which are charged with advisory or executive duties in respect of economic questions of all-Empire interest, and the subjects which occupy them. An important point which is brought out in this analysis is the extent to which each body is of a truly all-Empire character, *i.e.*, the extent to which it reflects the constitutional relationship between the different parts of the Commonwealth as defined by the Imperial Conference of 1926. The Report proceeds to point out that although there is no evidence of the overlapping between these bodies and no reason to think

that duplication of effort occurs, yet no definite plan has been framed with a view to prevent overlapping. A supplementary note by the United Kingdom Delegation draws attention to the desirability of assuring a constant and sufficient income to the Imperial Institute, one of the eleven bodies under review.

117. We endorse the recommendation of the Conference that a Committee be appointed, consisting of not more than two representatives of each of the participating Governments, to consider the means of facilitating economic consultation and co-operation between the several Governments of the Commonwealth, including a survey of the functions, organisation and financial bases of the eleven bodies under review, and an examination of the alterations or modifications which may be desirable to ensure greater efficiency of the existing machinery for such co-operation. We recommend that the Government of India should agree to be represented on the proposed Committee, and we desire to emphasise the importance of the matters which the Committee will consider. There is no question as to the high value of the work performed by the Imperial Economic Committee, and we consider that suitable arrangements should be made for the continuance and reasonable expansion of such work. Nor is there any doubt as to the value to India of the research work carried out by the Imperial Mycological Institute and the Imperial Institute of Entomology or of the work performed by the Imperial Agricultural Bureaux. To all of these India pays annual contributions, and in each case satisfactory arrangements now exist for the maintenance of contact with scientific workers in India and for a periodical review of the work done. It is clearly of importance that there should be no interruption of the work of these institutions. The research work financed from the Empire marketing fund has been a striking contribution to the scientific resources of the Empire, scientific investigations of outstanding importance have been carried out and are in progress and a properly planned attack has been made on some difficult problems of great economic importance. Grants from the Empire marketing fund have been made to several Empire countries for the investigation of problems for the study of which they possess special facilities, including substantial grants to India for research on rice, tea and lac. We note with satisfaction that the Government of the United Kingdom will continue to bear the cost of the Empire Marketing Board pending the receipt and consideration of the Committee's report.

(Sd.) ATUL C. CHATTERJEE.

,, GEORGE RAINY.

,, P. P. GINWALA.

,, ABDUSSAMAD KHAN.

,, HAJI ABDOOLA HAROON.

,, R. K. SHANMUKHAM CHETTY.

LONDON;

19th September 1932.

Annex to the Report.

SUPPLEMENTARY AGREEMENT REGARDING IRON AND STEEL.

India House,

Aldwych, W. C. 2.

22nd September 1932.

From

Sir GEORGE RAINY, K.C.S.I., K.C.I.E.,

Delegate for India to the Imperial Economic Conference, 1932,

To

Sir HORACE WILSON, K.C.B., C.B.E.,

Chief Industrial Adviser to His Majesty's Government,

Board of Trade, London, S. W. 1.

Sir,

When the Agreement between the British and Indian Delegations was made at Ottawa it was found necessary to postpone a final settlement of certain questions relating to iron and steel. By Article 1 of the Agreement His Majesty's Government in the United Kingdom undertook to continue after the 15th November free entry to all classes of Indian goods covered by the Import Duties Act It was clearly understood, however, between the two Delegations that the continuance of the free entry of Indian iron and steel for a longer period than six months from the date of the Agreement was dependent on the settlement of satisfactory conditions in regard to the tariff treatment of galvanised sheet on importation into India. At the same time an understanding was reached that the conditions which would be satisfactory to His Majesty's Government in the United Kingdom were as follows:—

(1) On the basis of present selling prices, the duties on galvanised sheet in the Indian tariff to be adjusted as follows.—

Rs. 30 per ton on sheet made in the United Kingdom from Indian sheet bar.

Rs. 53 per ton on sheet made in the United Kingdom from other sheet bar.

Rs. 83 per ton on sheet not made in the United Kingdom.

(2) In the event of further reductions in the price of sheet imported into India and not made in the United Kingdom, the Government of India, as soon as they are satisfied that a fall in prices had in fact occurred, would, without an enquiry by the Tariff Board, take prompt and effective action to meet the situation by the imposition of an additional duty. The amount of the additional duty would not necessarily be limited to the amount of the price reduction actually made, but would be sufficient to make clear the intention of the Government of India to maintain prices.

(3) Each Government would remain at liberty to take appropriate measures to prevent sales at unfair prices by the manufacturers in the other country, or to check an unnecessary increase in prices against the consumer by combination of manufacturers in both countries.

(4) These arrangements to remain in force until action is taken by the Government of India following the next statutory Tariff enquiry in India into the Iron and Steel industry.

2. The Indian Delegation are now prepared to undertake, on behalf of the Government of India, that proposals will be placed before the Indian Legislature for the adjustment of the duties on galvanized sheet at the rates set forth in clause (1) above, and for obtaining the powers which are necessary to carry out the intention of clauses (2) and (3). I have been authorised by my colleagues of the Indian Delegation to make this communication to you, and I have now the honour to request that you will inform me whether the terms of the understanding have been correctly stated in this letter.

I am, Sir,

Your obedient servant,

(Sd.) G. RAINY.

BOARD OF TRADE,

LONDON, S. W.,

22nd September 1932.

SIR,

I have to thank you for your letter of today's date on the subject of the tariff treatment to be accorded to galvanised sheets imported into India, and to confirm that the terms of the understanding which has been reached in this connection by our respective Governments are accurately set out in your letter.

I am, Sir,

Your obedient servant,

(Sd.) H. J. WILSON.

Sir George Rainy, K.C.S.I., K.C.I.E.,

India House, Aldwych,

London. W. C.-2.

APPENDIX "A".

The United Kingdom and Indian Delegations met at 2, Whitehall Gardens, London, on Tuesday, 24th May, 1932.

THE RIGHT HON'BLE STANLEY BALDWIN, M.P., Leader of the United Kingdom Delegation, spoke as follows.—

I should like to begin by offering a hearty welcome to you as the representatives of the Government of India and by expressing the satisfaction of my colleagues and myself that your Government has been able to obtain the services of such distinguished and experienced representatives. We have for a long period had the pleasure of close association with your leader, Sir Atul Chatterjee, both in his capacity of High Commissioner and as a distinguished member of the Imperial Economic Committee We shall also have the advantage in the discussions both here and at Ottawa of the knowledge and ripe experience of two *ex*-Presidents of the Indian Tariff Board and a man of the wide political influence and experience of Mr. Chetty. I am sorry that we have not with us to-day the two other members of your delegation. May I say how much I should have liked to have had the opportunity of welcoming them too?

Gentlemen, this is an historic occasion, for the first time the representatives of the Indian Legislature and other prominent leaders of Indian political and economic life are met in London to discuss with the greatest possible frankness, with the representatives of His Majesty's Government in the United Kingdom those vital economic problems on the correct solution of which the future of our two countries so largely depends. It seeems to us that the British Commonwealth is now at the parting of the ways We in this country have abandoned our traditional policy of free trade, and we believe that the future welfare of the scattered and diversified countries which make up the British Commonwealth of Nations, no less than the welfare of the Commonwealth as a whole, depends to a large extent on the adoption of a policy of economic co-operation, using that term in its widest sense The actual development of this co-operation rests with the citizens of our countries more than with Governments, but Governments can do much to promote it by the method of tariff preferences and by the conclusion, in a spirit of mutual trust, of commercial agreements with the object of promoting closer trading relations and of removing any existing handicaps to commercial intercourse. We meet together as equals having each in view the economic welfare of our own country, but conscious, for our part at least, that that welfare is largely bound up with the welfare of the British Commonwealth as a whole It is, indeed, a heavy responsibility that rests on our shoulders. The choice which lies before each of our countries is whether to participate in such an economic *bloc* or to attempt to pursue a policy of economic isolation. I would remind you that about half India's import trade and two-fifths of her export trade is with the other countries of the Commonwealth, and principally with the United Kingdom.

It is a great responsibility, but I think it is an even greater opportunity. If, after the next few months that we shall be together considering these questions of high policy in what I may call the Ottawa spirit of mutual trust, frankness and co-operation, you decide to recommend the Government of India and the Indian Legislature to cast their lot with their fellow citizens of this great Empire, you will have inscribed your names on a fresh page in the annals of India's history, which will be read with gratitude by your countrymen for generations to come.

Apart from the question of preferential trading with all the considerations of matters of detail which it involves, I would like to mention the broader advantages of economic co-operation. I refer to such matters as the continuance of the free flow of British capital on favourable terms to meet India's public requirements and to stimulate the growth of her commerce and industry. You will also, no doubt, be called on to consider the possibility of making tariff agreements with parts of our Colonial Empire, which are important fields for India's trade.

I need hardly remind you that the Ottawa Conference has been called together—I quote from the Resolution of the Imperial Conference of 1930—because that Conference had not the time to examine fully the various means by which Inter-Imperial trade could best be maintained and extended, and with a view to adopting the means and methods most likely to achieve the common aim. So long as this country adhered to its traditional fiscal policy, very obvious and very narrow limits were set to the means and methods that could be attempted for achieving this common aim. But all that has now been changed, as I think the following figures show very strikingly: In 1930 our retained imports from India were valued at £40,000,000. Of this total all but £760,000 consisted of goods which came in free of duty from all sources, and it was, therefore, only on about 2 per cent. of the trade that we were able to afford a tariff preference to Indian products; under the Import Duties Act of this year, duties of 10 per cent or more have now been imposed on foreign goods, corresponding to £17,000,000 (in 1930) of our retained imports from India, while the similar Indian goods enter free of duty, at any rate until the 15th November. In addition, tea from India represented £14,000,000 of our retained imports in 1930. Thus, on the basis of 1930 figures (which are the latest available), India now receives a tariff preference on as much as 80 per cent. of our retained imports from her, in place of the 2 per cent. which previously enjoyed a tariff preference In the case of tea, you will remember that when the duty was removed in 1929 it stood at 4*d*. per lb. on foreign tea

and $3\frac{1}{3}d.$ per lb. on tea from Empire countries. This gave a preference to Indian tea of $16\frac{2}{3}$ per cent., but in reinstating the foreign duty of $4d.$ per lb. we decided to mark our desire to increase Inter-Imperial trade by raising the preference to 50 per cent., making the duty on Indian tea only $2d.$ per lb. This preference of $2d.$ per lb. is intended, and we are confident cannot fail, to give real relief to the hard-pressed Indian tea industry, representing as it does a very substantial proportion of the price of the competing foreign tea, which was sold on its cheapness, and we are confident that our action, and still more the reasons which have inspired it, will have been fully appreciated in India. Other large items of the Indian export trade now enjoying preference are jute manufactures and coir manufactures, rice, coffee, goatskins, pig-lead and pig-iron, lac, ground-nuts, teak, oil-cakes, carpets, undressed leather and castor seed.

As you know, there are still many commodities which are untaxed in the United Kingdom whether they come from foreign or Empire countries. Those in which India is interested include raw cotton, raw wool, linseed, cotton seed and manganese ore. This free list was carefully compiled in our domestic interests, a point of special importance being the necessity of keeping down the price of the raw materials of the export industries on which we depend for our existence. We on this side feel it necessary to make clear at the outset that in view of these domestic interests we must be far more reluctant to make concessions in respect of commodities now on the free list than to continue concessions falling within the framework of the Import Duties Act. If the Government of India desire discussion of possibilities in regard to items now on the free list, we do not wish to rule out any commodity on grounds of principle, but must make it plain that, before concessions could be considered, reciprocal concessions of outstanding importance would have to be offered by India, and those would have to be over and above adequate concessions offered in return for the continuance of concessions by His Majesty's Government under the Import Duties Act. In saying this to you, I am saying no more and no less than has already been said to the Dominion Governments.

Turning now to the other side of the picture—our exports to India—we probably all think first of some great branches of trade which in recent years have come into a growing competition with Indian products—a competition that has been met with increasingly protective measures on the part of India. And here let me say at once no body of responsible and informed opinion in this country has any desire to impede or retard the industrial progress of India on sound economic lines. On the contrary we welcome the growing development of your manufactures and rejoiced when we found your country included by the League of Nations among the eight great industrial nations of the world—a position which they have reached with the active support of the British element in your Government and with the help of British capital.

We do not ask India to buy from us what she can economically make for herself. What we do ask is that she should reciprocate in the policy to which we have set our hand and so shape her policy as to facilitate within reasonable limits the purchase from this country, rather than from the foreigner, of the commodities which she requires to import from overseas.

I am informed that, in respect of certain classes of goods, you have lower duties on British than on foreign products, but that this differentiation was, as a matter of historical fact, made solely in the interests of India, and without any desire to confer a favour on this country or from any belief in the policy of Imperial preference. I suppose, therefore, that I should be wrong in expressing gratitude for the differentiation, but I cannot refrain from expressing my satisfaction that it has been found to be in the interest of India to do what is undoubtedly in the interest of this country and I am confident that in other directions also it will be found that Indian industries are complementary rather than competitive with British. There is, in fact, here a favourable field for mutual concessions in the interest of both parties. In the course of our long industrial history we in this country have learned to produce many highly specialised products—some of them belonging to our great staple industries, such as steel and cotton, and others to industries of less individual magnitude, but collectively of great importance to this country. Many of these India is at present not even preparing to produce for herself. And so we feel confident that we have many kinds of merchandise to offer which in her own interests India may welcome in preference to foreign goods of the same kinds, provided, of course, that we in turn continue to give equally valuable preferences to her products.

Before concluding I should like to invite your careful attention to a report of the Imperial Economic Committee—that on Imperial Industrial Co-operation—which is on the point of being published. The report covers a great deal of ground, but there is one central point to which I particularly wish now to direct attention. If the industrial associations in the various Empire countries will take the initiative, as some of them are already doing, in dividing up Empire markets, so that each country may concentrate on those branches of production for these markets, for which it is specially fitted by its local conditions, they open up the way for their Governments to help them effectively by giving substantial preferences in those classes of goods which by agreement are not being manufactured by their own people. I wish, however, to emphasise the point that the matter is one in which the initiative must lie with the business interests.

You have no doubt heard from your Government that the discussions preliminary to the actual Conference are intended to be of a quite informal and provisional character

Such discussions are already proceeding with representatives of the Dominion Governments both in London and in the Dominions. Our representatives in the Dominions have been furnished with lists of the goods in respect of which further tariff concessions will be specially acceptable to this country, and the lists are being discussed by them with representatives of the Dominion Governments. Similarly, in London, some of the Dominion representatives are furnishing lists of the concessions desired by their Governments, and these are being discussed by them with departmental representatives of the British Government. It is the desire of your Government that both sides of the preliminary discussions between this country and India should be conducted with you in London, and it has been agreed in the correspondence that they shall have the same informal and provisional character as the negotiations with the Dominions. We propose to appoint a small Committee with Sir Horace Wilson, the Chief Industrial Advisor to His Majesty's Government, as Chairman, to discuss with you or your representatives the question of the tariff treatment of Indian goods in this country and of British goods in India, and some material on the latter has been prepared and will be forwarded to you. May I now suggest that you should let Sir Horace Wilson know at what time you will be available to begin the detailed discussions.

Sir ATUL CHATTERJEE, Leader of the Indian Delegation, replied in the following terms.—

On behalf of the Indian delegation to the Imperial Conference at Ottawa, permit me to thank you most sincerely for the warm welcome that you have extended to us to-day at the commencement of our conversations in this country with the official representatives of your Government. I need not say how highly I appreciate the complimentary terms in which you have been pleased to speak of my own work in this country during the years when I held the post of High Commissioner in London. Throughout those years I received much kindness and courtesy from all officials here and also from the leading industrialists and merchants with whom it was my good fortune to come into contact, and I am glad of this opportunity to renew my association with them.

You have referred, Sir, to the mutual interests of Great Britain and our country in trade matters. The trade relations between our two countries have a history of wellnigh four hundred years, and it would be strange if, in the course of this long period, our economic interest had not become closely intertwined. India in normal years is the largest single customer of the United Kingdom, and in normal years nearly half our imports come from Great Britain We have in the past regretted the fact that the United Kingdom takes only a quarter of our total exports, but we have been fully conscious of the advantages that we derive from the circumstance that Great Britain is our largest customer.

It is a commonplace observation that India is primarily an agricultural country; our peasants till the land mainly for growing food crops for their own subsistence. But external commerce is no novel feature of Indian life. Even in the days of the Roman Empire Indian exports used to find their way to Europe. The obstacles that this overland traffic between India and Europe encountered in the fifteenth and sixteenth centuries originated the discovery of the sea routes and established the present connection between England and India. An outlet for our surplus agricultural produce must at all times have been an essential requirement for the prosperity of our rural population, and this need tends to increase. In the near future the completion of large irrigation projects and other agricultural improvements will enable us to produce commercial crops, such as high-grade cotton in much larger quantities than we can hope to utilise in our own industries. The maintenance and improvement of India's export trade in agricultural produce are therefore a matter of primary interest to us.

But as you have observed, Sir, India is developing her industries as well. This again is not an entirely new feature in our life, for in the earlier periods of our history our staple exports were mainly manufactured commodities. With the progress of the industrial revolution in Europe we in India lost ground in this respect, but about fifty years ago the Indian Government realised the necessity of securing diversity of employment in order to mitigate the rigours of agricultural calamities consequent on seasonal vagaries, and it then became the avowed policy of the Indian Government to foster industrial development in the country. During the Great War it was found that supplies were no longer available from abroad of manufactured goods on which India had learned to rely, and at the same time India was called upon to provide on a large scale munitions for the Eastern theatres of war. Impressed by the urgency of the problem, the Indian Government sought counsel first from a strongly-constituted Industrial Commission and then from a Fiscal Commission. As the result of the advice given by these two authoritative bodies, the Indian Government and the Indian Legislature adopted the policy of discriminating protection, which has now been in force for nearly nine years.

In giving effect to this policy of discriminating protection, the Indian Government and the Indian Legislature are naturally bound to consider Indian interests. But it has been their happy experience to find that in at least two important instances the interests of India rendered it desirable that the duties imposed on British manufactures should be lower than the duties imposed on imports from elsewhere. I refer to our tariffs on steel and cotton piecegoods. You will agree, Sir, that this experience is a favourable omen for the conversations and discussions for which you have invited us and which it will be our privilege to undertake.

You have referred, Sir, to the new orientation of policy in this country. We should like to take this opportunity of expressing to your Government our appreciation of the favour shown to us in common with other parts of the Empire in the matter of the fiscal arrangements that hold good till November next. The Government of India greatly value the invitation extended by you for a discussion of future arrangements. We are deeply grateful for the indications that you have given us to-day of your preliminary views. We look forward to fruitful discussions with your representatives. Let me assure you, Sir, that every member of our delegation is animated by a sincere desire to find in our conversations and negotiations the basis of a scheme which we can conscientiously recommend to our Government and our Legislature as conducive to Indian interests, but which may at the same time be deemed by you to be of advantage to this country.

It is my hope that our meeting to-day and our common deliberations will open a new chapter in the economic relations of our two countries. India is vitally dependent on her external commerce, and she cannot find a market for much of her surplus produce without exchanging it for goods which she needs and cannot produce herself with equal advantage It is the good fortune of India to be an integral part of a Commonwealth knit by a common allegiance to the person and throne of His Majesty the King-Emperor. I believe that it is possible without sacrificing the interests of any of the member States to find ties which will bind us together into a closer economic union, securing peace and prosperity throughout the Commonwealth, and thus contributing to the peace and prosperity of the whole world.

APPENDIX "B".

On the occasion of the formal opening of the Imperial Economic Conference at Ottawa on the 21st July, 1932, Sir Atul Chatterjee spoke as follows:—

May I at the outset express the pleasure and gratification of the Indian Government that at the invitation of your Government an Indian delegation is participating in this historic gathering in your beautiful capital city. We have travelled far to come here but our reward is equally great. Representing as we do one of the older civilisations of the globe, we deem ourselves fortunate thus to be brought into close contact with one of the newest and most progressive nations of the modern world.

We appreciate very greatly the most kindly and cordial welcome that was extended to us by His Excellency the Governor General this morning and also the very great welcome, Sir, that you have extended to us as the Prime Minister of this great country.

2. Previous speakers, Mr. Prime Minister, have emphasised the momentous importance of this Conference and the weighty issues which await the result of our deliberations. The Indian delegates feel this very strongly, and it will be our constant aim to contribute our share to the solution of the difficult and anxious problems which surround us. I believe I can best serve the purposes which are common to us all if I attempt to explain the point of view from which the Indian delegation approaches them. The success of this Conference depends very much on the extent of our sympathetic appreciation of the circumstances in which the representatives of each part of the Empire speak to-day—circumstances arising in each country from the course of history, and created for each of us by the irresistible pressure of economic forces. I hope I shall not make too heavy a demand on your patience, if I try to explain the position of India.

In doing this may I first of all refer to a circumstance which gives this Conference a special significance for India. This is the first occasion on which the leadership of the Indian delegation to an Imperial Conference has not been filled by the Secretary of State for India, and it marks one more stage in India's advance to complete self-government. The question of trade relations occupies the foremost place in our Agenda. Now in the sphere of Customs Tariffs India has already achieved autonomy in this sense that, when the Government of India and the Indian Legislature are in agreement the Secretary of State in London stands aside and does not exercise the power of control which is vested in him in our existing constitution. That the leadership of the Indian delegation has fallen to me, and that two of my colleagues have been selected from among the members of the Indian Legislature is an implicit recognition of this fact. The Indian delegation is unique in this respect that it is not composed of Ministers of the Crown, and that the Government it represents, though it does not commend a majority in its Legislature, must act in concurrence with that Legislature if in the sphere of tariffs it is to act at all. The special difficulties arising from this peculiar situation will be obvious and need not be explained at length.

3. I must also refer to the fact that we we are at a transition stage in India's constitutional advance and a stage which is approaching its termination. The declarations made by His Majesty's Government in the United Kingdom, after they had taken counsel with the representatives of India at the Round Table Conference, envisage the next stage as the establishment of a Federal Constitution for a Greater India, including not only British India but the Indian States. It is impossible for the Indian Delegation to put this impending change from their thoughts when they approach the problems before the Conference. They have to keep in view not only the India of to-day but also the India of the future, an India which I hope and believe has a large part to play in the British Commonwealth of Nations, bearing its proper share of the common responsibilities and contributing to the welfare of the whole. It must be the aim of those of us who represent India to-day so to perform our task that, while on the one hand India contributes her share in the present task of economic co-operation in the British Commonwealth of Nations— on the other hand the Government of the Greater India to which we look forward in the near future remains free to decide and shape for itself the future policy in accordance with its own conception of its position in the Commonwealth.

4. Turning now to the economic side of the question, I cannot claim for India that in this region she occupies any unique position or that her difficulties cannot be paralleled elsewhere, though there are features in her situation which deserve to be noticed. Like other parts of the Empire she has been exposed to the full blast of the economic storm, and since the great bulk of her population belongs to the class of primary producers, she, like the Dominions and the Colonial Empire, experienced at once the full effect of the catastrophic fall in prices and all that followed from it. As in many of the Colonies, a very high proportion of her population are directly dependent upon agriculture for their means of subsistence, while the average income, and consequently the purchasing power of the people, judged by western standards, is very low. Like most of the Dominions she has felt that to secure a due balance in her national life, industrial development is necessary and must be steadily pursued. Like most of the Dominions again, though at a much later date, she adopted a policy of protection in order that the growth of industries

might be expedited. In all these respects India's circumstances resemble those of one part of the Empire or another. But no Colony and no Dominion contains a population of 350 millions—three-fourths of the population of the Empire as a whole; no other part of the Empire contains such extensive tracts where the density of population produces a pressure upon the soil which is the cause of constant anxiety; nowhere else in the Empire does the recurring menace of famine, brought about by the unequal distribution of the seasonal rains, involve Government action on anything approaching the same scale. No Dominion and no Colony has a problem of military defence of the same scale as India.

5. The outlines of India's fiscal policy are to a large extent determined by the circumstances I have attempted to describe. The scale of Defence expenditure and the limited number of sources to which the Central Government can look for revenue, render the maintenance of the Customs revenue a matter of great importance, while at the same time the low level of purchasing power of the great mass of the population makes it desirable to keep the general level of duties within moderate limits. In these circumstances the effect on the Customs Revenue of a particular rate of preference requires the closest examination, lest the productiveness of that source of income should be endangered. Again there are commodities which, in the interests of industrial development, of public health, or of educational progress, have been left in India free of duty except in a financial emergency so acute as to over-ride the considerations of policy which would ordinarily be applicable. In such cases there can be little scope for preferential rates of duty. In the third place there are the commodities which are subject to protective duties. The policy adopted by India aims at securing an ordered and balanced development and the avoidance of some of the dangers and difficulties to which protection sometimes leads. The industries selected for protection are only those which are considered to possess natural advantages that would enable them in the long run to dispense with State assistance. In every case the protective duty is only fixed after a careful examination by the Tariff Board at a level which will be adequate for its purpose without imposing an unnecessary burden on the consumer. The Government of India and their delegation feel that a policy of this kind, deliberately adopted and found by experience to work satisfactorily, should not be discarded on the eve of a great constitutional change. It is of great importance to the future of India that the scheme of protection should be handed over to the new Government in full working order and with its vital principles unimpaired. Theoretically it might seem that preferences in the case of protective duties would be excluded altogether, but practically the result has been different. One of the most interesting things about the Indian system of protection is that it has led directly to what has been in effect, if not in intention, a preference for Empire goods. In two very important cases, iron and steel and cotton piece-goods, it has been found that the imposition of a lower rate of duty on goods made in the United Kingdom is entirely consistent with India's interests. My colleagues and I hope that an examination on similar lines of other protected industries may lead to a solution which will be in the interests of both India and of other parts of the Commonwealth.

7. One other aspect of India's economic position may be briefly noticed in passing. Like other parts of the Empire she can neither meet her international obligations nor purchase her requirements of manufactured goods unless she can find a market for her raw produce Her exportable surplus of certain commodities may, however, exceed—may even very greatly exceed—the Empire's present capacity to absorb them. India has to find markets outside the Empire for the great bulk of the exportable surplus of her products, although in normal years she purchases a greater proportion of her requirements from within the Empire than from without. These are facts which those responsible for India's welfare have constantly to bear in mind. The development of her foreign trade generally is one of her primary interests But it is not in the mind of any of us here, I am sure, that trade could be confined to Empire channels, and it is the hope of the Indian delegation that this Conference may prove to be an important step towards greater freedom of trade throughout the world.

8. There is one item in the Agenda the importance of which cannot be stressed too strongly I mean the inter-relationship of monetary standards of the Empire and the desirability and feasibility of restoring and stabilising the general level of prices and achieving exchange stability. For here we come to factors which affect the very foundations on which any structure of fiscal preferences has to rest. The benefits to production and trade of a preferential system may easily be swept away unless it is supported by a monetary and credit policy which assures a reasonable measure of stability of general wholesale prices. Above all things it is essential that the level of prices should be such as to re-establish equilibrium with costs and the burden of all fixed and semi-fixed money obligations. The precipitous fall in the level of wholesale prices in the last three years has created disequilibria of a character and an intensity which have had, and continue to have, the most unfortunate and dangerous consequences on the economic life and on the public and private finances of all countries, but particularly of countries, like India which are mainly engaged in the production of primary commodities.

Determined measures of re-adjustment are urgently necessary, and I desire to express the earnest hope that the Conference may be able to reach agreement on a plan which will bring about this desired end. Although for the full attainment of this end world-wide co-operation will be necessary, much can be accomplished at Ottawa as a preliminary

to international discussion. Moreover if a lead is given by us here it will have a potent influence towards restoring general confidence. Let me emphasise that India regards the monetary problem as one of vital and urgent importance.

9. I have only one word to say in conclusion. In speaking on preferential tariffs I have dealt so fully, Mr. Prime Minister, with our special difficulties that I may have seemed to attach more weight to them than to the common aim and purpose which brings us together. I hope this is not the impression I have produced. The Indian delegation has come to Ottawa in the hope and the belief that between the various parts of the Empire agreements can be reached which will be mutually advantageous to the countries concerned and harmful to none. It is in this spirit that they will strive to play their part in the work of the Conference.

APPENDIX C.

Agenda of the Imperial Economic Conference, 1932.

A. General Trade Questions—

1. Examination of aspects of general trade and tariff policy and administration affecting Empire trade, including, *inter alia*, the following subjects:—

(*a*) Recognition of the principle of reciprocal tariff preferences within the Commonwealth;

(*b*) General application of existing and future tariff preferences within the Commonwealth;

(*c*) Extension to other parts of the Commonwealth of tariff advantages accorded to foreign countries;

(*d*) Determination of percentage of "Empire Content" necessary to secure preferential tariff treatment;

(*e*) Export bounties and anti-dumping duties within the Commonwealth.

2. Commercial Treaty Policy with respect to foreign countries, including, *inter alia*:—

(*a*) Relation of inter-Imperial preferences to concessions to foreign countries,

(*b*) Interpretation of most-favoured-nation clause, particularly with reference to the development of regional preferences and of systems of import quotas.

3. Consideration of the appropriate basis and means of effecting inter-Imperial economic co-operation, including review of existing agencies, examination of the report of the Imperial Economic Committee on Industrial Co-operation, and discussion of communications and of research and standardization.

B. Monetary and Financial Questions—

Consideration of existing inter-relationships of the various currencies and monetary standards of the Empire, and of the desirability and feasibility of taking steps to restore and stabilize the general price level and to stabilize enchange.

C. Negotiations of Trade Agreements.

APPENDIX D.

Report on the Discussion of Monetary and Financial Questions at the Imperial Economic Conference, Ottawa, 1932.

1. We were appointed Delegates to the Imperial Economic Conference at Ottawa "with a view to the discussion of such monetary and allied problems as may be taken up by the Conference," and, on the completion of the mission thus assigned to us, we have the honour to submit the following report.

2. As originally conceived in 1930, the scope of the Conference was limited to commercial and fiscal questions. Since then, however, the outlook has undergone drastic modification as the intensity of the world-wide economic depression has deepened and its nature has been more accurately perceived Not only has the problem of recovery assumed an importance of vital urgency, but it has come increasingly to be realised that among the factors of dominant significance is the direction of monetary policy. A growing body of informed opinion places the operation of the monetary factor in the forefront of the elements responsible for creating and prolonging the depression, and, while fully recognising the necessity for radical measures in other fields, such as international war debts, barriers to international trade, exchange restrictions, etc, maintains that a rightly directed monetary policy, applied over a wide area, is perhaps the most powerful instrument for the promotion of recovery as well as for the subsequent prevention of such calamitous disturbances.

3. This trend of thought, combined with the world-wide economic and financial convulsions resulting from the disorganisation of the world's monetary system. led irresistably to the realisation that so important a subject could not rightly be excluded from the discussions at Ottawa, a view which found effective expression in the Canadian House of Commons last February, and which readily commended itself to all the participating Governments. It derived further strength from the decisions of the Lausanne Conference. Not only did that gathering take an important step towards the removal of a highly pernicious factor in international economic relations, the continuance of which would seem to render impossible any sustained improvement, but it also resolved on the convention of a world conference for the purpose of considering, among financial matters, the questions of monetary and credit policy, exchange difficulties and the level of prices. Occurring between these two important assemblies, the Ottawa Conference presented a specially favourable opportunity for an exchange of views between the influential group of Governments within the British Commonwealth. At the same time, it was perhaps inevitable that the new prospect of the full internationl conference should have tended to limit the scope of the discussions and to engender caution in the statement of conclusions lest prejudice to the wider discussions should result.

4. In section B (Monetary and Financial Questions) of the Provisional Agenda, which was prepared by the Government of Canada in consultation with the other Governments of the Commonwealth, our business was defined as follows:—

> "Consideration of existing inter-relationships of the various currencies and monetary standards of the Empire and of the desirability and feasibility of taking steps to restore and stabilise the general price level and to stabilise exchange."

5. Although this task represented a specially defined aspect of the activities of the Conference, as distinct from the strictly commercial items included in sections A and C of the Agenda, it is obvious that there was a close inter-connection between the two sides. Monetary and commercial policy react in many important ways upon each other. Hence it was necessary to maintain close contact with our colleagues on the trade side of the Delegation, and we are happy to think that there was a full concurrence of views between us throughout the proceedings. Before leaving London, we were able to discuss with them and to reach complete agreement upon the policy to be pursued at Ottawa, and co-operation was maintained throughout the Conference itself. In particular we were glad to have the advice and assistance of Mr. Chetty, who followed the proceedings of the Committees with us at most of the important meetings.

6. The procedure in regard to monetary matters was similar to that adopted in the case of the other main items of business. Almost all the Heads of Delegations included in their speeches at the opening Plenary Session a brief reference to their interest in the question. There followed the appointment of Committee No. 4 on Monetary and Financial Questions, under the Chairmanship of the Canadian Minister of Trade and Commerce, to which was referred the task defined in the Agenda as quoted above. It proceeded first to hear from each Delegation an exposition of its own financial and economic position. These statements and the subsequent exchanges of view made it clear that all the Delegations wished to concentrate upon the fundamental task of determining the best monetary policy within the limits of existing currency systems and according to the established methods of their management. None of the Delegations showed any inclination to consider any of the novel monetary schemes which have been canvassed in recent times, such as an Empire Currency. Accordingly, the essential issues as immediately referred to a Sub-Committee, were defined in the following terms:—

> "(a) Is it possible or desirable by action on the part of the member countries of the Empire, or a larger group, to raise the general level of prices, and, if so, by what means and to what extent?

(b) Is it possible or desirable to stabilise currencies within the Empire? If so, on what basis and by what means?"

After some preliminary discussion it was decided by the Sub-Committee to entrust the preparation of an agreed statement upon these questions to a small technical Committee. The statement was cast in the form of a set of resolutions, couched in general terms, and embodying the lines of policy upon which harmony of opinion was found to exist. The resolutions were forwarded through the Sub-Committee to the main Committee without substantial modification, and their adoption by the Conference marked the conclusion of the proceedings on this item of the Agenda

7. The main element in the case which it was our duty to lay before the Conference was the pressing importance of immediate and concerted measures to raise the general level of wholesale prices. As the Leader of the Delegation said in his speech at the opening Plenary Session, "The precipitious fall in the level of wholesale prices in the last three years has created disequilibria of a character and an intensity which have had, and continue to have, the most unfortunate and dangerous consequences on the economic life and on the public and private finances of all countries, but particularly of countries, like India, which are mainly engaged in the production of primary commodities." From the point of view of the vast majority of the people of India, a strain which could not permanently be borne has been created by the great fall in the prices of the commodities they produce, and by the consequent increase in the real burden of those charges which are usually fixed in terms of money, such as interest, rent, taxes, etc. A gap, in fact, has arisen between selling prices and costs of production which it is essential to close. From the point of view of Government, the decline in the value of Indian exports has reacted seriously upon revenue and necessitated drastic retrenchments and the increase of taxation, while its effects on the balance of trade in merchandise have not only rendered difficult the conduct of Government finance but have also put a great strain on the monetary system. Something has been achieved towards lessening these strains in the case of India by the fact that since last September the sterling price-level has followed a more favourable course than that of gold prices. But the essential need is an early and substantial *rise* in sterling wholesale prices. A rise in the level of both gold and sterling prices would, of course, be the most desirable result; but, short of this, a rise in sterling prices would be of considerable value to India, while, in our opinion, such a rise might also favourably react on gold prices and on the economic position throughout the world. The wider task of achieving co-operation to produce a rise in gold prices could obviously not be accomplished at Ottawa, and our endeavours were mainly directed to reach agreement, and especially to obtain a declaration from the United Kingdom, that monetary policy would be steadily directed to achieving a rise in sterling prices until an equilibrium was re-established between the cost of production on the one hand and the level of wholesale prices on the other.

8. At the same time, it was clearly impossible for the Conference to ignore the far-reaching significance in the fiscal sphere of fluctuations in the exchanges of the Empire countries. Not only is it essential to the successful development of inter-Imperial trade (which is the object of any preferential tariff system) that stability of exchange should be maintained, but a preferential system itself may be rendered meaningless by alterations in the values of currency as between the countries concerned. For currency depreciation constitutes in effect an additional tariff, the effect of which may easily be to eliminate the benefits of a carefully adjusted preference. To have ignored this aspect of the monetary question would have been to run the risk of stultifying the primary objective of the Conference.

9. Annexed to this report are the two statements which we made before the monetary Committee, from which may be gathered in greater detail the facts upon which our argument was based and the general lines upon which we urged that Imperial monetary policy should be conducted. In presenting our case we were fortunate in having the close concurrence and support of the Australian and New Zealand Delegations, both representing countries, like India, concerned mainly with the production of primary commodities, and both anxious to rely on the direction of sterling monetary policy to achieve the desired re-adjustment of the general level of wholesale prices. The position of South Africa in regard to gold production, and the close connection of Canada with the financial system of the United States, naturally complicated the position for the Delegations from these countries in relation to a policy which might have the effect of raising sterling prices regardless of the course of gold prices. Naturally, also, the international interests of the United Kingdom, and the magnitude of the practical problems confronting the monetary authorities there, necessitated a considerable degree of caution in the expression of views and the enunciation of policy. Nevertheless, we were able to reach an encouraging degree of unanimity on the general aspects of the problem, while on all points it was of the highest value to have such an opportunity for a full and frank exchange of information and opinions.

10. We reproduce below the full text of the resolutions which emerged from our deliberations.

I

(a) A rise throughout the world in the general levels of wholesale prices is in the highest degree desirable. The evil of falling prices must be attacked by Government and individual action in all its causes whether political, economic, financial or monetary.

(*b*) For dealing with the problem in its widest aspects the Governments represented at this Conference record their conviction that international action is urgently necessary and announce their desire to co-operate with other nations in any practicable measures for raising wholesale prices.

(*c*) The Conference has considered what action can be taken by the nations of the Commonwealth to help towards raising prices.

As regards monetary factors, the Conference recognizes that the central position of the United Kingdom, not only among the countries of the Commonwealth but in world trade and finance, makes the United Kingdom a main factor in anything that can be done. The Conference therefore welcomes the following statement made on behalf of the United Kingdom by the Chancellor of the Exchequer:—

"His Majesty's Government desire to see wholesale sterling prices rise. The best condition for this would be a rise in gold prices and the absence of a rise in gold prices inevitably imposes limitations on what can be done for sterling. A rise in prices cannot be effected by monetary action alone, since various other factors which have combined to bring about the present depression must also be modified or removed before a remedy is assured. His Majesty's Government nevertheless recognise that an ample supply of short term money at low rates may have a valuable influence, and they are confident that the efforts which have successfully brought about the present favourable monetary conditions can and will, unless unforeseen difficulties arise, be continued."

(*d*) The Conference recommends the other countries of the Commonwealth represented here to act in conformity with the line of policy as set out in the statement of the Chancellor of the Exchequer, so far as lies within their power.

In the monetary sphere the primary line of action towards a rise in prices should be the creation and maintenance within the limits of sound finance, of such conditions as will assist in the revival of enterprise and trade. Among these conditions are low rates of interest and an abundance of short term money. While regard must be had to the different conditions applying to various types of loans, the rate of interest for all purposes should be kept as low as financial conditions permit At the same time it is necessary that these favourable monetary conditions be achieved, not by the inflationary creation of additional means of payment to finance public expenditure, but by an orderly monetary policy, safeguarded if the necessity should arise, by such steps as will restrain and circumscribe the scope of violent speculative movements in commodities or securities.

It must be kept in mind, however, that the success of any such policy will be hampered and might be nullified by the failure to modify or remove important non-monetary obstacles. Of the non-monetary factors which are depressing the level of prices many are of international character and require an international remedy. The nations of the Commonwealth should, nevertheless, take all steps that lie in their power to increase public confidence, especially in the field of business enterprise, and to facilitate trade.

(*e*) The Conference recognises the great importance to traders of stability of exchange rates over as wide an area as possible The complete solution of this problem must await the restoration of conditions for the satisfactory working of an international standard as referred to below. In the meanwhile, and pending such solution, this Conference has considered the possibility of achieving valuable results in two directions—first by creating an area of stability among countries regulating their currencies in relation to sterling; and secondly, by avoiding wide day-to-day fluctuations between sterling and gold.

As regards the latter, the Conference has noted with satisfaction that the United Kingdom has already established machinery aimed at preventing wide fluctuations in the gold value of sterling caused by speculative movements. As to the former, the Conference recognizes the value of the countries within the Commonwealth whose currencies are linked to sterling maintaining stability between their exchange rates and looks to a rise in the general level of wholesale prices as the most desirable means for facilitating this result.

II

The Conference recognizes that the ultimate aim of monetary policy should be the restoration of a satisfactory international monetary standard. Such a standard should so function as not merely to maintain stable exchange rates between all countries, but also to ensure the smooth and efficient working of the machinery of international trade and finance.

This postulates international agreement among the great trading nations of the world, and while certain of the States here represented hold very definite views on the question of the most desirable standard the Conference refrains from making any recommendations on the subject in view of the fact that the question is shortly to be discussed at an international conference. There are, however, several conditions precedent to the re-establishment of any international monetary standard. The most important among them are—

A rise in the general level of commodity prices in the various countries to a height more in keeping with the level of costs, including the burden of debt and other fixed and semi-fixed charges; and an adjustment of the factors political, economic, financial and monetary, which have caused the breakdown of the gold standard in many countries, and which, if not adjusted, would inevitably lead to another breakdown of whatever international standard may be adopted.

It is also in the view of the Conference of the utmost importance to the future working of any international standard that international co-operation should be secured and maintained with a view to avoiding, so far as may be found practicable, wide fluctuations in the purchasing power of the standard of value.

11. These resolutions we believe to represent a useful achievement in the declaration of the aims which should guide monetary policy at the present juncture. In particular they contain a statement of the policy of the United Kingdom, which though drafted in cautious terms, may properly, we think, be interpreted as indicating an intention that the right action in the monetary sphere for which we pressed, shall be persisted in until recovery has been attained. Provided this is done, it is unnecessary to insist on any differences of opinion as to the relative emphasis which should be placed upon the various factors in the situation. Further, we are satisfied that the concluding stipulations as to the conditions which must precede the restoration of an international standard of value should go far towards ensuring that no premature attempt is made to return to such a standard, and that the paramount necessity is recognised of first restoring a satisfactory level of wholesale prices in terms of such a standard.

12. We believe that, if the problems and aims adumbrated in these resolutions are pursued and developed at the world economic conference, the combined results of that gathering and of Ottawa should be of very substantial help in restoring the fundamental conditions for the resumption of orderly economic progress

(Sd.) HENRY STRAKOSCH.

(Sd.) GEORGE SCHUSTER.

London, the 19th September 1932.

ANNEX I.

STATEMENT MADE BY SIR GEORGE SCHUSTER AT A MEETING OF THE COMMITTEE ON MONETARY AND FINANCIAL QUESTIONS ON 28TH JULY, 1932.)

I shall confine my remarks to a description of the actual effects on India of the recent fall in prices, leaving to Sir Henry Strakosch the task of more general treatment. It is not necessary to enter into elaborate detail for the main features of our position are similar to those already described for other countries But there are special features in the case of India. Its mere size makes our problems more serious, while the conditions of the people and the present political situation import considerations which are not present in the case of the other Empire countries.

The position has to be considered in two broad divisions, first, the economic condition throughout the country, that is to say, the effects of what has happened on the masses of the people; secondly, the reactions on the budgetary and financial position of the Government.

India has a population of 350,000,000. Although she has achieved important industrial development she is still essentially an agricultural country. Over 70 per cent. of her vast population rely directly on the cultivation of the soil for their livelihood, mainly as small cultivators on their own account. They cling to the soil, and the laws of inheritance lead to the division of the land into ever smaller holdings. The average standard of life is, to those accustomed to Western standards, incredibly low. While the people live mainly on their own produce they require money, first, to meet their fixed charges, land revenue to the Government, canal dues in irrigated areas, in some parts rent to private landlords, and, most important of all, interest on their debts to the money-lenders, for the ordinary cultivator in India is always heavily indebted; and secondly, to purchase certain absolute necessities, such as cotton piece-goods, kerosene, salt. As regards both these requirements for money they have suffered very severely from the fall in prices. In the case of the first—their fixed money obligations—this must obviously be so, while as regards the second, the prices of the necessities which they have to buy have not fallen to anything like the same extent as those of the produce which they have to sell. Our general position in this respect is similar to that of New Zealand, as explained by Mr. Coates in his speech at the opening of this Conference. The index number, based on 100 for 1914, for Indian exports has fallen from an average level of 138 in 1928 to 78 in April 1932, while the general index figure of internal prices in India for imported commodities had only fallen from 145 to 124. There has thus in the last three years been a fall of about 49 per cent. in the prices of exported goods as compared with the fall of 13 per cent. in the prices of imported goods. But the position of the poorest classes is really worse than these general figures indicate. It can be most clearly understood by taking typical commodities which the ordinary agriculturist has to buy and sell. Thus in April last the index figures (based on 100 for 1914) were for cereals 66, raw jute 45, hides and skins 52, cotton 89. On the other hand the figure for cotton piece-goods was 127 and for kerosene 161. The comparative stability of the internal prices for those goods is partly due to the fact that the basic prices of manufactured and semi-manufactured goods have fallen less than for primary products, and partly to the increase in customs import duties which the necessities of the financial crisis have forced the Government to impose.

The figures sufficiently indicate how difficult the position of the small cultivator has become. For the prices which he is now realising for his "money crops" are in many cases only about half the pre-war prices(while his fixed charges have probably in most cases increased and the cost of his necessary purchases is much higher. The margin of cash which he can realise is thus totally inadequate to meet his needs. In these circumstances he is forced either to restrict his own consumption of the foodstuffs which he produces, or to part with any property which he may have (cash savings, gold and silver articles, etc.), or to get more deeply into debt. There is clear evidence that recourse to all three of these methods has been general during the past eighteen months. The Provincial Governments have done their utmost to meet the situation by remissions of land revenue, canal dues, etc., and by forcing reductions of rent. But their own financial difficulties impose limits on their powers in this direction, while even a total remission of their levies would not fill the gap.

I may turn now to the effects on the budgetary and financial position.

The economic depression has caused a drop of unparalleled magnitude in India's Trade and consequently in Government revenue. The average value of India's post-war trade in merchandise (*i.e.*, for the ten years ending March 31, 1930) was, exports, 325 crores (about £243½ million sterling) and imports, 242 crores (about £181½ million sterling) showing a favourable balance of 83 crores (£62 million sterling). For 1931-2, however, the figures had dropped to less than one-half, namely, exports, 160 crores (£120 million stering) imports, 125 crores (£92 million sterling), favourable balance, 45 crores (£28 million sterling), while, as I shall explain later the

figures up-to-date for the current year are much worse. The two significant facts here are, first, the drop in the total values, and secondly, the drop in the favourable balance. It is the former which affects the budgetary position which I will deal first. The drop in values indicates that custom revenues on which we rely for two-thirds of our tax revenue, would without increasing the rates of the duties have been halved. The general falling off in trade is equally affecting income-tax receipts, while railway revenue has dropped in a manner which is causing most serious embarrassment to the Government's finances. I may indicate the magnitude of our railway interests by saying that the Government of India had 752 crores, or £564 million sterling, invested in its railways, and that in a normal year the gross traffic receipts from this system should be about 110 crores, or £83 million sterling, annually. The receipts will probably be less than 80 crores, or £60 million sterling, for the current year.

To meet the situation of which I have just given the salient features, the Government has had to take drastic measures both to restrict expenditure and to increase taxation. But the scope for economies in the case of the Government of India is limited. The main charges of the Central Budget are for Debt Services and Defence. Out of a total budgetary expenditure in 1929-30 of about £100 million sterling, the cost of ordinary civil administration was only about £9 million sterling. Army expenditure accounted for about half the balance. The case of military expenditure is particularly worth noting, because it affords a good illustration of the difficulty of adjusting post-war standards to an economic level which has fallen much lower than the pre-war level. Pre-war military expenditure was 29 crores, say £21 million sterling, but the post-war military budget four years ago had been stabilised at 55 crores, or £41½ million sterling, nearly twice the pre-war figure. And yet we now maintain 16,000 *less* British troops in India than we had before the war. The difference is mainly accounted for by the higher standard of efficiency which the war proved it necessary to maintain, to higher rates of pay and to other special features, such as the addition of war pensions. We have for 1932-3 reduced the figure to 46¼ crores, or about £34½ million sterling, including cuts in pay. We cannot get it appreciably lower without reducing fighting troops on a large scale. The dangers of such a course just now are obvious. On the civil side we have made severe economies but this had meant cutting down administrative services and Public Works expenditure to a low level which cannot safely be maintained. The scope for economies being thus limited it has, in order to fill the gap, been necessary to impose very heavy increases in taxation. To explain shortly what has been done I may say that, while our normal tax revenue has since the war averaged about 75 crores (£56 million sterling), I have been forced during the last two years to impose new taxes calculated to yield 34 crores (£25½ million sterling), an increase of nearly 50 per cent. Yet, on present indications even this may prove insufficient if the present low level of prices continues.

The figures which I have given indicate how great are the budgetary difficulties, but the intrinsic position is not fully revealed by these figures. In order to explain this one must turn to the second point, the balance of trade. Before the war India could, taking the average of the ten pre-war year figures, rely on a favourable balance of exports over imports of merchandise of about 72 crores (£54 million sterling). I have already given figures showing that for the ten post-war years to the end of March 1930 the average favourable balance had incrased to 83 (£61 million sterling), and that for 1931-2 the balance had been reduced to 34 crores (£25½ million sterling). But the position since the close of the last financial year has got steadily worse. The trade figures for the first three months of the current year, April, May and June, show total exports of merchandise 30 crores (£22½ million sterling) and imports 37 crores (£27¾ million sterling)—an unfavourable balance of 7 crores. Thus, if we continue at this rate for the rest of the year we shall have an unfavourable balance of 28 crores (£21 million sterling) compared with a normal favourable balance both for the pre-war and post-war periods of 70 to 80 crores (£54 million to £61 million sterling). But India as a debtor country needs to maintain a large favourable balance of trade in merchandise. The Government in order to meet its essential obligations has to find about £30 million sterling annually, that is to say, 40 crores, while the figures indicate that, as an average, a further margin of 10 crores (£7½ million) at least is required to meet other items in the adjustment of payments on private accounts. Therefore, apart from movements of capital or the country's requirements for the purchase of precious metals, India in order to maintain an even position requires a favourable trade balance of at least 50 crores (£37½ million) annually. In the past, as I have shown, this minimum has in fact been exceeded by 20 to 30 crores; and this margin has been utilised by India for the import of gold and silver, which according to age-long tradition the Indian people buy Yet we are now faced with a heavy unfavourable balance of trade—a feature which, save only in the totally exceptional disturbances just after the war, India has never experienced before. It will be asked how in these circumstances our exchange rates are being maintained. The answer is that since last September India, instead of importing gold and silver, has practically stopped buying silver and has been *exporting* gold on a large scale. Actually in six months, October 1931 to March 1932 India exported gold to the value of 57 crores, or on the basis of the full gold parity of sterling to the value of about £32 millions. This process is still continuing at the rate of about 4 crores (£3 million sterling) per month. This is the key factor which must be remembered in assessing the realities of the Indian economic situation. According to the figures for the first three months of this year India is only exporting merchandise at the rate of 120 crores (£90 million sterling) per annum, while

she needs, as I have already shown, a favourable trade balance of at least 50 crores (£37½ millions) in order to maintain an even keel. Therefore, if it were not for the export of gold she could only afford to be importing at the rate of 70 crores (£52½ millions) per annum. A reduction of imports to such a figure would create a completely impossible budgetary position. If on the other hand imports were not so reduced she would be unable to meet her external obligations except by raising fresh loans, a course of which the dangers and advantages are obvious.'

In what I have already said I have dealt with the general economic position in the country and with the budgetary and currency position of the Government. But there is another side of the Government's financial activities which has a very important bearing on the general economic position of the country. I refer to the Government's programme of capital expenditure on public works generally but especially on railway construction and irrigation works. The grave budgetary difficulties which I have described combined with the difficulty of maintaining financial and currency stability in the face of the slump in export trade have forced the Government to cut down most drastically the whole of its programme of capital expenditure. Financial policy as regards the railways clearly illustrates this. In the three years from 1st April 1927 to the 31st March 1930 expenditure on new construction and Open Line works on the railways, including the expenditure from the Depreciation Fund, averaged £31¼ million sterling. For the financial year 1932-33 this expenditure has been reduced to a total of £7¾ million sterling. This reduction in construction work seriously affects the economic position in India. It must also seriously affect the position in England, for a large portion of the railway expenditure would have taken the form of the purchase of locomotives, etc., from England. These figures are no more than an illustration in one important field of the vicious circle of depression into which a country is forced when its Government has to undertake a drastic policy of economy and deflation. As a further detail illustrating this I may quote the fact that, when the programme of the development of the Indian iron and steel industry was fixed five years ago, it was worked out on the assumption that the Government requirements of rails from the Tata Iron and Steel Works would amount to 200,000 tons per annum. The actual orders for the current year are only 38,000 tons. It is obvious how such subnormality in activity must re-act on the economic position throughout the country.

In what I have said above I have dealt only with the position of the Central Government of India. But the position of the various Provincial Governments is even more difficult. I need not enlarge upon this for the effects in this field are precisely similar to those of the Central Government which I have already outlined.

While the difficulties of effective action towards producing a rise in prices are fully recognised, the situation which I have attempted to describe seems to us to justify the consideration of any course which offers a hope, however slight, of ameliorating the position.

The discussion of the exact lines which such a course might follow can be left to a later stage, but I should like to conclude by shortly summarizing India's needs, and stating what is likely to happen if these cannot be met.

We need above everything a substantial and early rise in prices. We recognise that a rise in world prices to be brought about by International co-operation is the ultimate ideal, but, short of this, we believe that a rise in sterling prices extending throughout the sterling area would not only bring us great immediate benefits, but would probably by its own stimulus and example lead to a general movement throughout the world. If we could be assured by declaration from the British Government that their policy would be directed to raising sterling prices and to maintaining monetary and credit conditions appropriate to that end, we should feel justified in adopting a policy which would itself contribute largely to a general improvement in trade.

ANNEX II.

STATEMENT MADE BY SIR HENRY STRAKOSCH AT A MEETING OF THE COMMITTEE ON MONETARY AND FINANCIAL QUESTIONS ON 28TH JULY, 1932.

I should like, with your permission, to amplify the very instructive surveys of the previous speakers by dealing with the monetary problem from a somewhat wider angle. I shall endeavour to explain how intimately the question of Imperial Preference is bound up with that of monetary co-operation within the Empire, indeed, how essential such monetary co-operation is to the promotion of Inter Empire Trade and how the absence of an appropriate and uniform monetary policy within the Empire is likely to frustrate the advantages that Imperial Preference is designed to give.

There is hardly a single one of the statements made by the heads of the Delegations at the Opening Meeting of the Conference, and again today, which does not refer to the fall of wholesale prices as the fundamental factor in the economic depression and which does not emphasize the urgent need of seeing the trend of wholesale prices reversed.

This view is now also accepted over a wide area outside the British Empire. (Notably in the U. S. A.).

It is unnecessary at this stage to deal at any length with the causes of the fall of the gold level of prices and the abandonment of the gold standard by all but a few countries. Yet it is, I believe, useful to refer to it briefly. There has been a good deal of controversy on this subject but public discussion in the more recent past has shown that there is a great measure of unanimity on the fundamental factors that have brought about that fall. The differences where they exist today are mainly of emphasis and not of substance.

It is now generally recognised that the fall of prices and therefore the crisis is due to a combination of factors—political, economic, financial and monetary—all acting and reacting one upon the other but all operating on the situation through the monetary medium.

It is now also recognised that one of the most important elements in the situation has been the reparation and war debt question. The refusal (by the imposition of high tariffs and other restrictions to the movement of goods) of the two reparation and war debt creditor countries, France and United States, to receive these and other debt payments in the form of goods or securities had compelled the debtor countries to discharge their obligations in the form of gold. The consequent depletion of their monetary gold reserve set in motion a vicious circle of deflation, which in its early stages produced a severe economic depression to which was later on added a financial crisis—a crisis of confidence which in some countries threatens to destroy the very foundations of the Credit system, *i.e.*, the system upon which our modern economic and social organization rests.

Happily as a result of the Lausanne Conference there is a fair prospect of this question being solved in a way in which the baneful effect of reparation and war debt payments will be mitigated substantially.

For the purpose of our immediate task it seems important that we should keep firmly in mind what are the principal reactions of a fall of prices on production and trade. That will, I believe, provide us with a good guide when we come to consider the means by which we may hope to extricate ourselves from our present difficulties.

A rapid appreciation of the purchasing power of money (which finds its expression in the fall of the general level of wholesale prices)—

(*a*) enhances the burden of all debts because ultimately they can only be met in the form of goods and services;

(*b*) enhances also all fixed or semi-fixed money obligations other than debts; *e.g.*, rents, wages, railway rates and taxes;

(*c*) and so sets up a disequilibrium between the cost of production and the price of the commodities produced.

The enhancement of the purchasing power of money thus causes widespread insolvency, deranged budgets and the destruction of profits of enterprise which in turn reduces the volume of production and brings with it unemployment and ultimately forces upon the community a reduction of the standard of living.

A reference in a local newspaper to the experience of a Calgary sheep farmer puts the effect of a disequilibrium between costs and prices simply and neatly. The sheep he had sent to market were sold for twenty five cents a head. His costs including railway freight amounted to forty-eight cents and thus left him with a loss of twenty-three cents per sheep. The rigidity of certain costs is well illustrated by the fact that the taxi fare from the Chateau to the House of Commons costs fifty cents, that is, the money value of two sheep.

The income of the community is determined by the volume of its production. The incentive to production, on the other hand, depends upon the prospect of the production yielding a profit.

If there is no prospect of it yielding profit, production will be reduced.

Falling wholesale prices and the disequilibrium which such a fall creates between the cost of production and prices thus leads inevitably to a curtailment of production, that is, to a reduction of the income of the community. Unemployment and a progressively increasing inability of meeting debt charges is bound to ensue.

How a rapid fall of wholesale prices causes a disequilibrium to develop between costs and prices may be gathered from the chart I submit (showing the course of wholesale prices and cost of living in the United Kingdom, United States, Germany and France since 1928). The cost of living index is a good index of the general cost of production in a country.

The object of the Ottawa Conference is the promotion of inter Empire trade mainly by a system of tariff preferences.

The Chairman of the Indian Delegation in his Opening Speech said:—

> "The benefits to production and trade of a preferential system may easily be swept away unless it is supported by a monetary and credit policy which assures a reasonable measure of stability of general wholesale prices..........".

And he emphasized.—

> "That the level of wholesale prices should be such as to re-establish equilibrium with costs and the burden of all fixed and semi-fixed money obligations."

To elucidate the point let me briefly deal with some of the effects on Inter-Imperial Trade and the operation of preferential tariffs of—

(a) Sterling prices remaining where they are at present.

(b) Sterling prices falling below the present level.

(c) Sterling prices rising above the present level.

I shall do so from the point of view of those Empire countries, the currencies of which are at present linked to sterling. They are all in the main producers of primary commodities and all are on balance debtor nations, mainly to the United Kingdom

(a) If sterling prices remain at their present level (which is some 3 per cent. below that at which it stood when the United Kingdom and all but one of the Empire countries abandoned the Gold Standard) the burden of debt and the disequilibrium between costs and prices is likely to remain so great as to continue to impede production and to absorb so large a proportion of the importable surplus of these countries to meet their debt charges as to leave but the slightest margin with which to buy commodities from the United Kingdom. No amount of preference in favour of United Kingdom goods could in these circumstances lead to purchases by the Dominoins and India of the United Kingdom goods beyond the absolutely indispensable minimum.

The burden of debt at the present level of prices is so great that it is by no means excluded that one or other of the countries will be unable fully to meet their obligations—which are mainly to United Kingdom.

There is moreover the possibility that some of them will not be able to maintain the link with sterling at the present rate of exchange. It may become necessary for them to depreciate their currencies in terms of sterling so as to ease their burden of internal debt and to reduce the disequilibrium between costs and prices.

The effect of such a development would be to give to the country which has allowed its currency to depreciate a definite advantage in the cost of production and thus in its competitive power over producers in the other parts of the British Commonwealth. A depreciation of currency in these circumstances is equivalent to an extra tariff against the rest of the Empire. It would tend to restrict trade, to cancel preferences already agreed and abnormally to stimulate some of its industries. Such a development is clearly contrary to the whole spirit of Empire co-operation and is the surest way of destroying it.

(b) If sterling prices were to fall below their present level the dangers and difficulties to which I have alluded would be very substantially increased. Production and trade would be reduced still further and default on external as well as internal obligations and depreciation of the currency would be almost inevitable in many cases. The risk of social and political difficulties would be substantially enhanced. And finally any system of Empire preference would be quite ineffective.

(c) Most of the difficulties to which I have alluded would be mitigated and possibly completely removed by a rise of wholesale prices.

The conclusion to be drawn from this cursory survey is clearly that to make the aims of the Ottawa Conference attainable it is indispensable:

(a) That pending the re-establishment of a stable international monetary standard the Empire countries should as far as possible adopt a common standard of value and that the wholesale level of prices in terms of that common standard should be raised to a point at which an equilibrium is re-established between costs and that level of prices.

Further, that on the attainment of that level monetary policy should be directed towards maintaining its stable both in terms of commodities and in terms of other Empire currencies.

The United Kingdom, being the greatest centre for Empire trade and finance and being in a very strong creditor position *vis-a-vis* the rest of the Empire, the trend of prices in terms of the common standard must depend in the main upon the monetary policy she decides to pursue.

If it is agreed that (1), a general rise of prices is necessary and (2), that stability of Inter-Empire exchanges is desirable then in order to attain these objects it is the monetary policy of the United Kingdom which must be the decisive factor. The task of the other members of the Empire sterling group in these circumstances involves no new problem. It would be confined to maintain stable the exchanges of their national currencies on London. They would in other words have to do no more than all gold standard countries used to do before the War.

It is sometimes said that the interests of the United Kingdom in this regard and those of the rest of the Empire diverge because—

(*a*) United Kingdom is a creditor country and as such profits by a low level of prices, and,

(*b*) The divergence between costs of production and the prices of the goods she produced is less than the divergence in the other parts of the Empire.

As to (*a*) the United Kingdom has a vital interests in seeing that her debtors remain solvent not only because she has a claim on them as a creditor but also because she is deeply interested in the sale to them of United Kingdom products.

(*b*) The purchasing power of the Dominions, India and the Colonies for these goods clearly depends largely upon the cost of production being brought into harmony with the price of these commodities.

It is clear then that the measure of harmony of the interests of the United Kingdom an dthe rest of the Empire is much greater than any possible divergence in regard to the particular price level to be aimed at. In these circumstances it should not be difficult to devise a common policy which would suit the requirements both of the United Kingdom and the rest of the Empire.

The fall in prices and the consequent process of economic disintegration has already reached so advanced a stage that there is no time to lose. If we are to avoid troubles far more acute and far more dangerous than those we have already experienced quick and determined action is necessary.

One more word in conclusion. I think we all realise that the measures of Imperial co-operation in the economic and monetary field which we are considering here—even if they were put into execution immediately—will not restore to the Empire the measure of prosperity it enjoyed before the crisis. That prosperity can return to us only if and when the production and trade of the world as a whole have been restored. And that requires among other things the re-establishment of an international monetary system which can be relied upon to assure all reasonable conditions of stability, both in regard to the purchasing power of money in terms of commodities and in regard to the exchanges The measures. for Empire co-operation in the monetary field must therefore be regarded as no more than a preliminary stage to alleviate the position and pave the way to the restoration of an international monetary standard. The Empire will have an important—if not deciding—voice in the determination of what that standard should be. It seems desirable, therefore, that we should avail ourselves of the opportunity this Conference offers to consider what international monetary standard the Empire would favour and the conditions under which it would be prepared to adopt it.

But before we come to consider this question the Conference will no doubt agree that our first task is to pursue the subject of immediate practical importance, *viz.*, to reach agreement first on the broad proposition that a rise in the wholesale level of prices is necessary and then on the method by which such a rise may be achieved.

APPENDIX E.

TRADE AGREEMENT BETWEEN HIS MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM AND THE GOVERNMENT OF INDIA.

We, the representatives of His Majesty's Government in the United Kingdom and of the Government of India, hereby agree with one another on behalf of our respective Governments as follows:—

Article 1.—His Majesty's Government in the United Kingdom undertake that Orders shall be made in accordance with the provisions of Section 4 of the Import Duties Act, 1932, which will ensure the continuance after the 15th November, 1932, of entry free of duty into the United Kingdom of Indian goods which comply with the law and statutory regulations for the time being in force defining Empire goods for the purpose of customs duties and which by virtue of that Act are now free of duty.

Article 2.—His Majesty's Government in the United Kingdom will invite Parliament to pass the legislation necessary to impose on the foreign goods specified in Schedule A appended hereto, the duties of customs shown in that Schedule in place of the duties (if any) now leviable.

Article 3.—His Majesty's Government in the United Kingdom will invite Parliament to pass the legislation necessary to secure to Indian goods of the kinds specified in Schedule B appended hereto which comply with the law and statutory regulations for the time being in force defining Empire goods for the purpose of customs duties, the margin of preference over similar foreign goods shown in that Schedule.

Article 4.—His Majesty's Government in the United Kingdom undertake that no order will be made and that Parliament will not be invited to pass legislation which would have the effect of reducing the margin of preference now enjoyed by Indian goods of the kinds specified in Schedule C over similar foreign goods, and further undertake that, in the event of any greater preference being accorded in respect of such goods imported from any other part of the Empire, such greater preference will be extended to similar Indian goods.

Article 5.—It is agreed that the duty on either wheat in grain or lead as provided in this Agreement may be removed if at any time Empire producers of wheat in grain and lead respectively are unable or unwilling to offer these commodities on first sale in the United Kingdom at prices not exceeding the world prices, and in quantities sufficient to supply the requirements of United Kingdom consumers.

Article 6.—His Majesty's Government in the United Kingdom will invite Parliament to pass legislation which will secure for a period of ten years from the date hereof to tobacco, which complies with the law and statutory regulations for the time being in force defining Empire goods for the purpose of customs duties, the existing margin of preference over foreign tobacco, so long, however, as the duty on foreign unmanufactured tobacco does not fall below 2/0½*d.* per lb. in which event the margin of preference shall be equivalent to the full duty.

Article 7.—His Majesty's Government in the United Kingdom will invite Parliament to pass legislation providing for the admission into the United Kingdom free of duty from all sources of the goods specified in Schedule D.

Article 8.—His Majesty's Government in the United Kingdom undertake that they will co-operate in any practicable scheme that may be agreed between the manufacturing, trading and producing interests in the United Kingdom and India for promoting, whether by research, propaganda or improved marketing, the greater use of Indian cotton in the United Kingdom.

Article 9.—His Majesty's Government in the United Kingdom will invite the Governments of the non-self-governing Colonies and Protectorates to accord to India any preference which may for the time being be accorded to any other part of the British Empire, provided that this Clause shall not extend to any preferences accorded by Northern Rhodesia to the Union of South Africa, Southern Rhodesia and the Territories of the South African High Commission by virtue of the Customs Agreement of 1930, and further will invite the Governments of the Colonies and Protectorates shown in Schedule E to accord to India new or additional preferences on the commodities and at the rates shown therein.

Article 10.—The Government of India will invite the Legislature to pass the legislation necessary to secure to United Kingdom goods of the kinds specified in Schedule F which comply with the laws and statutory regulations for the time being in force defining Empire goods for the purpose of customs duties the margins of preference over similar foreign goods shown in that Schedule.

Article 11.—The Government of India will consider, in the light of the findings of the Tariff Board, the protective duties to be imposed on goods of cotton and artificial silk according as they are made in the United Kingdom or elsewhere, and will invite the Legislature to pass legislation by which, where protective duties are not imposed as a result of the recommendations of the Tariff Board upon United Kingdom goods of the kinds specified in Schedule G, the margins of preference shown in that Schedule will be extended to such goods.

Article 12.—The Government of India will invite the Legislature to pass the legislation necessary to secure to the Colonies and Protectorates and the Mandated Territories of Tanganyika, the Cameroons under British Mandate and Togoland under British Mandate, preferences on the commodities which comply with the laws and statutory regulations for the time being in force defining Empire goods for the purpose of customs duties and at the rates shown in Schedule H and also any preferences from time to time accorded to the United Kingdom if His Majesty's Government in the United Kingdom so request. Provided that the Government of India shall not be bound to accord any preferences to any Colony or Protectorate which, not being precluded by international obligations from according preferences, either (i) accords to India no preferences, or (ii) accords to some other part of the Empire (in the case of Northern Rhodesia, excepting the Union of South Africa, Southern Rhodesia and the territories of the High Commission) preferences not accorded to India.

Article 13.—His Majesty's Government in the United Kingdom declare that they will maintain their existing policy under which tariff preferences accorded to any Dominion are also accorded to India, and the Government of India, for their part, declare that it is their intention to extend to the United Kingdom any tariff preferences which they may accord to any Dominion.

Article 14.—This agreement between His Majesty's Government in the United Kingdom and the Government of India shall continue in force until a date six months after notice of denunciation has been given by either party.

Provided that in the event of circumstances arising which in the opinion of either party necessitate a change in the rates of duty or margins of preference settled by the agreement on any particular description of goods that party shall notify and consult with the other party with a view to adjustments being agreed upon. If no agreement is reached within six months of the date of such notice it shall then be open to the original party to give to the other party six months' notice of his intention to carry into effect the change desired in the rate of duty or margin of preference on goods of the description named in the original notice and to bring the revised rate or rates into operation at the expiration of this period.

Signed on behalf of His Majesty's Government in the United Kingdom.

(Sd.) STANLEY BALDWIN.

Signed on behalf of the Government of India:

(Sd.) ATUL C. CHATTERJEE.

20th August 1932.

SCHEDULE A.

(*Vide Article 2.*)

Description of Goods.	*Rate of Duty.*
Wheat in grain	2*sh*. per quarter.
Rice, husked including cargo rice and cleaned rice whole, but not including broken rice.	1*d*. per lb.
Caster oil, linseed oil, coconut oil, ground-nut oil, rape oil, and sesamum oil.	15 per cent., *ad valorem*.
Magnesium Chloride	1*sh*. per cwt.
Linseed	10 per cent , *ad valorem*.

SCHEDULE B.

[*Vide Article 3.*)

Description of Goods.	*Margin of Preference.*
Coffee	9*sh*. 4*d*. per cwt.

SCHEDULE C.

(*Vide Article 4.*)

Tea.
Coir Yarn.
Coir mats and matting.
Cotton yarns, unbleached, up to No. 40 Count.
Cotton manufactures.
Leather undressed—hide other than sole leather.
Leather undressed—skins.
Jute manufactures.
Oil seed cake and meal.
Paraffin wax.
Spices.
Teak and other hardwoods, whether hewn or sawn, in so far as now subject to duty.
Woollen carpets and rugs.
Bran and pollard.
Rice meal and dust.
Tobacco.
Castor seed.
Magnesite.
Sandalwood oil.
Granite setts and curbs.
Groundnuts.
Lead.

SCHEDULE D.

(*Vide Article 7.*)

Shellac, seed lac and stick lac.
Jute, raw.
Myrabolams.
Rice, broken.
Mica slabs and splittings.
Crotalaria juncea and any other varieties of Indian hemp that can be distinguished.

SCHEDULE E.

(Vide Article 9.)

(1) Ceylon.

(a) at a rate of not less than 10 per cent. *ad valorem*.

Cotton piece goods.

Cotton yarn

Fresh fruits and vegetables

Dried, salted and preserved fruits and vegetables.

Big lead (but not lead sheets, tea lead or foil).

Iron and Steel

Teak and other hard-woods.

Perfumery

Coriander seed.

Beans.

Apparel.

Boots and shoes.

Woollen carpets and rugs.

(b) at specific rates.

Tea at the rate of 12½ cents per lb.

Coffee, raw, roasted or ground, at the rate of 6 cents per lb

Tobacco manufactures, at rates to be subsequently determined.

(2) Those Governments of British Malaya with whose tariff policy it is consistent to impose duties on the commodities in question.

(a) at a rate of not less than 10 per cent. *ad valorem*.

Tanned hides and skins.

Brass, bronze, brassware and bronze ware.

Copper and copperware.

Paraffin wax.

Perfumery.

Groundnuts.

Cotton piece goods.

Fishmaws and sharkfins.

(b) at 2 cents per lb.

Groundnut oil (kachang oil).

Gingelly oil.

SCHEDULE F.

(Vide Article 10.)

Note :—

The 10 per cent. preference granted to the United Kingdom by the agreement does not extend to commodities in the following classes :—

(1) Those free of duty under Part I of Schedule II of the Indian Tariff Act.

(2) Those dutiable under the following entries in Part II of Schedule II of the Indian Tariff Act:—27A, 29, 43A, 43B, 45B.

(3) Articles dutiable under Part III of Schedule II of the Indian Tariff Act.

(4) Articles dutiable under Part IV of Schedule II of the Indian Tariff Act, excepting entries Nos. 60, 61 and 62.

(5) Articles which are liable to protective duty at special rates under Part VII of Schedule II of the Indian Tariff Act.

Specification in annual statement of sea-borne trade of British India.		Rate of preference *ad valorem*, per cent.
APPAREL (EXCLUDING HOSIERY AND BOOTS AND SHOES) :—		
1. Apparel (including drapery, uniforms, accoutrements).	In so far as they are not subject to duty under Nos. 45A and 133 of the Indian Tariff Act.	10
2. Apparel—caps, bonnets and hatters' ware.		10
3. Apparel—secondhand clothing		10
ARMS, AMMUNITION :—		
4. Filled cartridge cases		10
5. Empty cartridge cases		10
6. Firearms		10
ASBESTOS :—		
7. Asbestos manufactures		10
8. BOOTS AND SHOES of leather		10
BRUSHES AND BROOMS :—		
9. Brushes (paint and varnish)		10
10. Toilet brushes		10
11. Brushes (other than toilet and paint and varnish)		10
BUILDING AND ENGINEERING MATERIALS OTHER THAN OF IRON, STEEL OR WOOD :—		
12. Firebricks		10
13. Cement, Portland		10
14. Cement, other than Portland		10
15. Tiles, other than glass tiles		10
16. Other kinds (except asphalt, bricks, chalk, lime and clay)		10
BUTTONS :—		
17. Buttons, metal		10
CHEMICALS AND CHEMICAL PREPARATIONS (EXCLUDING CHEMICAL MANURES AND MEDICINES) :—		
18. Tartaric acid		10
19. Other acids (except acetic, carbolic, citric, oxalic and tartaric)		10
20. Anhydrous ammonia		10
21. Other ammonia and salts thereof		10
22. Disinfectants other than naphthalene		10
23. Bichromate of potassium		10
24. Potassium compounds, other sorts (except chlorate and cyanide)		10
25. Bichromate of soda		10
26. Cyanide of sodium		10
27. Caustic soda		10
28. Sodium carbonate (soda ash and soda crystals)		10
29. Soda compounds, other (except bicarbonate, borax and sodium silicate)		10
30. Other sorts of chemicals (except those indicated above as separately distinguished and except alum, arsenic, calcium carbide, glycerine, lead compounds, ferrous sulphate, magnesium compounds, sulphur, and zinc compounds)		10

Specification in annual statement of sea-borne trade of British India.	Rate of preference *ad valorem*, per cent.
31. COCOA AND CHOCOLATE	10
32. CONFECTIONERY	10
33. CORDAGE AND ROPE OF VEGETABLE FIBRE (excluding jute and cotton)	10
34. CORK MANUFACTURES.	10
35. CUTLERY (except pruning knives)	10
DRUGS AND MEDICINES (EXCEPT CHEMICALS AND NARCOTICS):—	
36. Proprietary and patent medicines	10
37. Other sorts (except aloes, asafoetida camphor, cocaine, merphia, opium, sarsaparilla and storax)	10
EARTHENWARE AND PORCELAIN:—	
38. Earthenware, except pipes and sanitary ware	10
39. Procelain, electrical	10
40. Procelain, other kinds	10
FURNITURE AND CABINETWARE:—	
41. Bedsteads	10
42. Wooden furniture, other than bedsteads	10
43. Furniture of other materials, except bedsteads.	10
44. GLUE	10
HARDWARE (EXCLUDING CUTLERY AND ELECTRO-PLATED WARE):—	
45. Builders hardware such as locks, hinges, door bolts, etc.	10
46. Domestic, other than enamelled iron-ware	10
47. Enamelled iron-ware	10
48. Gas mantles	10
49. Implements and tools other than agricultural implements and machine tools	10
50. Lamps, metal	10
51. Parts of lamps, other than glass	10
52. Safes and strong boxes of metal	10
53. Stoves	10
54. Other sorts (except agricultural implements, buckets of tinned or galvanised iron, lamps of glass)	10
INSTRUMENTS, APPARATUS AND APPLIANCES AND PARTS THEREOF, ELECTRICAL (including telephone and telegraph apparatus not being machinery):—	
55. Electric fans and parts thereof	10
56. Electric wires and cables	10
57. Standard lighting lamps	10
58. Batteries	10
59. Accumulators (including parts) in so far as they are not subject to duty under No. 42 A of Schedule II of the Indian Tariff Act.	10
60. Accumulators (including parts) in so far as they are subject to duty under No. 42 A of Schedule II of the Indian Tariff Act	7½
61. Electric lighting accessories and fittings (including switches)	10
62. Meters (other than telegraphic and telephonic)	10
63. Other electrical instruments (other than telegraphic and telephonic), except meters	10
64. Electro medical apparatus (including X-ray)	10
65. Other electrical goods and apparatus (except electric wires and cables, telegraph and telephone instruments and apparatus, flash lights, parts and accessories of electric lamps, carbons, condensers, bell apparatus and switch boards)	10

Specification in annual statement of sea-borne trade of British India.	Rate of preference *ad valorem*, per cent.
Musical :—	
66. Pianos and piano players, complete	10
67. Talking machines and accessories (except records)	10
68. Other musical instruments and parts (except organs and harmoniums complete, and talking machines and records)	10
Photographic :—	
69. Cinematograph films, raw, *i.e.*, blank films on which no picture has been impressed	10
70. Photographic, other than above numerated and exposed cinematograph films.	10
71. Photographic plates and papers	10
72. Scientific and philosophical	10
73. Surgical	10
74. Wireless apparatus in so far as it is dutiable under No. 43 of Schedule II of the Indian Tariff Act	10
75. Other instruments, etc. not indicated above as separately distinguished in the Trade Returns (except optical), including domestic refrigerators	10
LEATHER :—	
76. Skins, tanned or dressed	10
77. Unwrought	10
78. Leather cloth (including artificial leather)	10
79. Other manufactures of leather (except pickers, roller skins, saddlery and harness and bags and trunks)	10
LIQUORS, INCLUDING DENATURED AND PERFUMED SPIRITS :—	
80. Ale and beer in bottle	10
81. Ale and bear in other containers including barrels	10
82. Spirit present in drugs, medicines or chemicals	10
83. Spirit, perfumed	10
84. MACHINERY AND MILLWORK, all sorts subject to duty under No. 96 of the Indian Tariff Act, including sewing and knitting machines and parts thereof, and typewriters and parts thereof	10
METALS AND ORES :—	
85. Aluminium circles	10
86. Aluminium sheets	10
87. Other aluminium manufactures (except unwrought ingots, blocks, bars, etc.)	10
Brass, bronze and similar alloys and manufactures thereof —	
88. Wrought : mixed or yellow metal for sheathing	10
89. Wrought : Rods	10
90. Wrought : Sheets	10
91. Wrought : Tubes	10
92. Wrought : Wire	10
93. Wrought : Other sorts	10
Copper :—	
94. Wrought : Rods	10
95. Wrought : Sheets	10
96. Wrought : Tubes	10
97. Wrought : Wire, excluding telegraph and telephone	10
98. Other copper manufactures (except braziers)	10
99. German silver (including nickel silver)	10
100. Iron and Steel, all sorts, which are subject to duty under Nos. 60, 61, 62, and 97 of Schedule II of the Indian Tariff Act.	10
Lead, wrought :—	
101. Pipes and tubes	10
102. Sheets, (*other than sheets for tea chests*)	10

Specification in annual statement of sea-borne trade of British India.	Rate of preference *ad valorem*, per cent.
METALS AND ORES—*contd.*	
Zinc or spelter :—	
103 Wrought or manufactured	10
OILS :—	
104. Fish oil	10
105. Essential—synthetic	10
106 Natural essential oils (except almond, bergamot, gajuputti, camphor, cloves, eucalyptus, lavender, lemon, otto rose and peppermint)	10
107. Lubricating (mineral) other than batching	10
108. Mineral; paints, solutions and composition, dangerous, flashing below 76° F.	10
109. Vegetable non-essential oils (except coconut, groundnut and linseed)	10
110. OIL-CLOTH AND FLOOR-CLOTH	10
111. PACKING :—engine and boiler of all kinds (excluding asbestos)	10
PAINT AND PAINTERS' MATERIALS :—	
Paints and Colours—	
112. Blue paint or Paris blue	10
113. Enamels, prepared	10
114. Red lead, genuine dry	10
115. White lead, genuine dry	10
116. Zinc white, genuine dry	10
117. Other sorts (except barytes, graphite, reduced dry red lead and white lead, *moist white lead*, reduced dry zinc white and moist zinc white)	10
Other than Paints and Colours :—	
118. Goods, other than turpentine and turpentine substitute and varnish	10
PAPER AND PASTEBOARD :—	
Paper :—	
119. Packing paper	10
120. Printing paper, except newsprint	10
121. Writing paper in large sheets	10
122. Envelopes imported separately	10
123. Other kinds of paper (except "Note and letter paper and envelopes" and old newspaper in bales and bags).	10
124. Paper manufactures	10
Pasteboard, millboard and cardboard of all kinds :—	
125. Other than strawboards	10
126. Manufactures of pasteboard, millboard and cardboard	10
PROVISIONS AND OILMAN'S STORES :—	
127. Canned or bottled fruits	10
128. Tinned or canned fish	10
129. Other canned and bottled provisions n. e. s. (except vegetable products—vegetable ghi and fat, etc.).	
130. Milk, condensed and preserved including milk cream	10
RUBBER MANUFACTURES :—	
131. Pneumatic motor covers	10
132. Pneumatic motor tubes	10
133. Pneumatic motor cycle covers	10
134. Pneumatic cycle covers	10
135. Pneumatic cycle tubes	10
136. Solid rubber tyres for motor vehicles	10
137. Other manufactures except apparel, boots and shoes (and except pneumatic motor cycle tubes)	10
138. SMOKERS' REQUISITES (EXCLUDING TOBACCO)	10
139. SOAP: TOILET	10

Specification in annual statement of sea-borne trade of British India.	Rate of preference *ad valorem*, per cent.
140. STATIONERY (EXCLUDING PAPER), PENCILS (EXCLUDING SLATE PENCILS)	10
141. Other sorts	10
TEXTILES :—	
Haberdashery and millinery :—	
142. Lace and embroidery — In so far as they are not subject to duty under Nos. 45-A and 133 of Schedule II of the Indian Tariff Act.	10
143. Other sorts (except towels not in the piece). — In so far as they are not subject to duty under Nos. 45-A and 133 of Schedule II of the Indian Tariff Act.	10
WOOL :—	
144. Worsted yarn for weaving	10
145. Knitting wool	10
Manufactures :	
146. Carpets and floor rugs	10
147. Hosiery	10
148. Piece goods	10
149. Shawls	10
150. Other sorts (except blankets and rugs)	10
151. TOILET REQUISITES NOT SPECIFIED ELSEWHERE IN THE TRADE RETURNS.	10
TOYS AND REQUISITES FOR GAMES AND SPORTS (INCLUDING FISHING TACKLE) :—	10
152 Toys	10
Requisites for games and sports (excluding firearms, etc.).	
153. Playing cards	10
154. Other	10
155. UMBRELLAS AND UMBRELLA FITTINGS—	
VEHICLES :—	
156. Carriages and carts not mechanically propelled (excluding railway carriages, trucks, etc.)	10
157. Parts of carriages and carts (excluding rubber tyres)	10
158. Cycles (other than motor cycles) imported entire or in sections	10
159. Parts of cycles and accessories (other than of motor cycles) (excluding rubber tyres).	10
160. Motor cars (including taxicabs)	7½
161. Motor omnibuses	7½
162. Chassis of motor omnibuses. motor vans and motor lorries	7½
163. Parts of mechanically propelled vehicles and accessories other than of aircraft (excluding rubber tyres)	7½

SCHEDULE G.

(*Vide Article 11*).

Specification in annual statement of sea-borne trade of British India.	Rate of preference *ad valorem*, per cent.
Apparel (including drapery, uniforms, accoutrements). — In so far as they are subject to duty under Nos. 45-A. and 133 of the Indian Tariff Act	10
Apparel—caps, bonnets and hatters' ware — In so far as they are subject to duty under Nos. 45-A. and 133 of the Indian Tariff Act	10
Apparel—secondhand clothing — In so far as they are subject to duty under Nos. 45-A. and 133 of the Indian Tariff Act	10
Canvas, cotton	10
Shawls, in the piece, cotton	10
Lace and Patent Net, cotton	10
Fents, cotton, 9 yards long or less	10
Other sorts of cotton manufactures (excluding twist and yarn, piece-goods, thread for sewing, blankets, handkerchiefs in the piece, hosiery, rope and towels in the piece).	10

Specification in annual statement of sea-borne trade of British India.		Rate of. preference *ad valorem*, per cent.
Lace and embroidery	In so far as they are subject to duty under Nos. 45-A and 133 of the Indian Tariff Act.	10
Other sorts of haberdashery and millinery . .		10
Silk manufactures, excluding yarn, noils and wraps, piece-goods and thread for sewing		10
Goods of silk mixed with other materials, excluding twist and yarn, piece-goods and thread for sewing		10
Artificial silk manufactures, excluding yarn, piece-goods and thread for sewing		10
Goods of artificial silk, mixed with other materials, excluding twist and yarn piece-goods and thread for sewing		10

SCHEDULE H.

(*Vide Article 12.*)

(*a*) Preferences at a rate of not less than 10 per cent. *ad valorem*—

Asphalt.

Beeswax.

Soda ash, including Calcined, natural soda and manufactured sesqui-carbonates.

Gum Arabic.

Gum benjamin, ras and cowrie.

Gum dammer.

Dammer batu, unrefined.

Rosin.

Cutch

Gambier, all sorts.

Citronella oil.

Cinnamon oil.

Cinnamon leaf oil.

Coconuts, husked, unhusked and other kinds, copra or coconut kernel, coconut oil, coir, fibre, coir yarn, coir mats and matting.

Fish, dry unsalted.

Fish, dry salted.

Fish, canned.

Fresh vegetables.

Vegetables, dried, salted or preserved.

Fruit and vegetables, canned and bottled.

Fruit juices.

Sisal and aloe fibre.

Ivory, unmanufactured.

Oil seeds (other than essential)

Vegetables oils (other than essential).

Plumbago.

Sago and tapioca (but not sago flour).

Vanilla beans.

and so long as it is consistent with India's Tariff Policy to impose Customs duties on the commodities in question:—

Fresh fruits (other than coconuts).

Dried, salted or preserved Fruits.

(*b*) At a rate of 7½ per cent. *ad valorem*—

Betelnuts.

Unground spices.

and, so far as preferences are granted to the United Kingdom, drugs and medicines and apparel of all kinds.

(*c*) Preferences at specific rates—

Bitters at the rate of Rs. 3-12-0 per gallon.

Coffee at the rate of 1 anna per lb.

Rum at the rate of Rs. 3-12-0 per proof gallon.

Tea at the rate of 2 annas per lb.

Unmanufactured tobacco at rates to be subsequently determined.

APPENDIX F.

The Convention of St. Germain-en-Laye, 1919, is the last of three international agreements, the other two being the General Act of Berlin, 1885. and the General Act, and Declaration of Brussels, 1890. These instruments are commonly referred to as the "Congo Basin Treaties", though their operation extends far beyond the Congo Basin. They contain provisions relating to a variety of subjects including the suppression of slavery and the slave trade, the navigation of certain African rivers and the protection of life and property in Africa; but the only provisions of importance for the present purpose are those which provide for commercial equality between the nationals of the signatory States in an area extending right across Africa, and including what is now the whole of the Belgian Congo, Kenya, Uganda, Tanganyika, Zanzibar and Nyasaland, part of Northern Rhodesia, and parts of surrounding French, Italian and Portuguese territory.

The Berlin Act provided for a regime of complete free trade in this area. The Brussels Act and Declaration modified this provision by allowing duties up to 10 per cent. subject to the proviso that there should be no discrimination in favour of any one Power. The Convention of St. Germain removed the limitation as to the amount of the duties that could be levied but provided specifically against any form of discrimination.

The parties to the Berlin Act and to the General Act and Declaration of Brussels were Great Britain, Belgium, Italy, Portugal, France, Germany, Austria, Denmark, Spain, The Netherlands, Russia, Turkey, Sweden and Norway. The parties to the Convention of St. Germain are Great Britain, the Dominions and India, Belgium, Italy, Portugal, France and Japan. As between these latter Powers the Convention of St. Germain abrogates the earlier instruments.

The Convention of St. Germain provided thatt he signatory Power should reassemble at the end of ten years from its coming into force in order to introduce into it such modifications as experience might have shown to be necessary. Towards the end of this period of ten years the position was carefully considered by His Majesty's Government in the United Kingdom in consultation with trading and shipping interests and with His Majesty's representatives in the Colonies concerned. The general consensus of opinion at the time was in favour of maintaining the existing position. After this review of the matter His Majesty's Government in the United Kingdom informed the other Powers parties to the Convention that they saw no occasion for holding a Conference immediately. They accordingly suggested that it should be postponed until 1935. Some of the Powers accepted this proposal and others sent no reply.

His Majesty's Government were asked in the House of Lords, in June 1932, whether the continuance of the Congo Basin Treaties was in accordance with the present policy of the Empire, and if not what steps were being taken to effect their denunciation. Lord Templemore's reply on behalf of the Government included statements (1) that they were giving their earnest consideration to the whole matter, especially as regards its bearing on Ottawa and other Conferences that were taking place, and (2) that he was informed that there would be rather large international obstacles in the way of bringing the present regime to an end.

GIPD— L77CD—30 8-34—200.